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N. 3002

No. 14968

United States
Court of Appeals
for the Ninth Circuit

HARRY X. BERGMAN, PERMA-LOX ALUMI-
NUM SHINGLE CORPORATION and VIC-
TOR H. LANGVILLE, doing business under
the assumed name of Langville Manufacturing
Company, Appellants,

vs.

ALUMINUM LOCK SHINGLE CORPORA-
TION OF AMERICA, Appellee.

Transcript of Record

In Two Volumes

VOLUME I.

(Pages 1 to 307, inclusive)

Appeal from the United States District Court for the
District of Oregon

FILED

MAR 21 1956

PAUL P. O'BRIEN, CLERK



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In the United States District Court
District of Oregon

Civil Action No. 7084

ALUMINUM LOCK SHINGLE CORPORATION OF AMERICA, Plaintiff,

vs.

HARRY X. BERGMAN, PERMA-LOX ALUMINUM SHINGLE CORPORATION and VICTOR H. LANGVILLE doing business under the assumed name of LANGVILLE MANUFACTURING COMPANY, Defendants.

COMPLAINT

For Infringement of Letters Patent No. 2,631,552,
L. J. Korter, March 17, 1953

The plaintiff complains of the defendants individually and severally and alleges:

1. Plaintiff.

The plaintiff, Aluminum Lock Shingle Corporation of America, is a corporation duly organized and existing under the laws of the State of Oregon, having a regular and established place of business at 725 S.E. Powell Blvd., Portland 2, Oregon.

2. Defendants.

That the plaintiff is advised and believes as follows:

(a) The defendant, Harry X. Bergman, has a business address at 427 S.W. 13th Avenue, Port-

land, Oregon, and is a resident within the jurisdiction of this Court.

(b) The defendant, Perma - Lox Aluminum Shingle Corporation is a corporation duly organized and existing under the laws of the State of Oregon, having a regular and established place of business at 427 S.W. 13th Avenue, Portland, Oregon. This corporation is the manufacturing agent of defendant, Harry X. Bergman.

(c) The defendant, Victor H. Langville is an individual doing business in the State of Oregon under the assumed name of Langville Manufacturing Company, having a regular and established place of business at 2036 S.E. Grand Avenue, Portland, Oregon, and is a manufacturer of the infringing shingles for defendants set forth in paragraphs 2(a) and 2(b).

Each of these defendants have, in Portland, Oregon, and elsewhere in the United States, committed and are committing acts of infringement herein complained of, and are threatening to continue to do so.

3. Jurisdiction.

That the jurisdiction of this Court is based upon the patent laws of the United States of America.

4. Title to Patent.

That on March 17, 1953, Letters Patent of the United States, No. 2,631,552, for Aluminum Shingle, were duly and legally issued to Louis J. Korter on an application filed January 9, 1950, Serial No. 137,566, and that the entire right, title and interest in and to said Letters Patent have been assigned to

the plaintiff, Aluminum Lock Shingle Corporation of America.

5. Infringement.

That the defendants have, within the last six years, and prior to the filing of this Complaint and subsequent to the date of said Letters Patent No. 2,631,552, infringed said Letters Patent, are now infringing the same, and threaten to continue to infringe, by making, causing to be made, selling or causing to be sold, and/or using or causing to be used, shingles, within this district and elsewhere in the United States and within the jurisdiction of this Court, embodying the invention disclosed and claimed in said Letters Patent owned by the plaintiff, Aluminum Lock Shingle Corporation of America, the same having been done and is being done wilfully and without the consent of the plaintiff, and the defendants will continue to do so unless enjoined by this Court.

6. Unfair Competition.

Defendant Harry X. Bergman, purchased the patented shingles from plaintiff to roof his house and the said Bergman, having gained knowledge of the product from this and other installations, then entered into the business of manufacturing and selling plaintiff's patented shingle under the name of Perma-Lox Aluminum Shingle Corporation, but without plaintiff's consent, and within six years prior to the filing of this Bill of Complaint.

Defendant Bergman and his salesmen have told the trade in general, and in particular customers interested in purchasing aluminum shingles, that

Aluminum Lock Shingle Corporation of America, is a subsidiary of Bergman's manufacturing company, Perma-Lox Aluminum Shingle Corporation, and, therefore, one and the same company, in an attempt to trade on the reputation and good will of plaintiff's company to the financial detriment of plaintiff.

Defendant Bergman has also unfairly competed with plaintiff by using plaintiff's photographs showing the patented shingle in an attempt to palm off his shingles for those of plaintiff.

Defendant Bergman has also competed unfairly with plaintiff in the matter of advertising by his imitation of plaintiff's advertising.

Defendant Bergman has caused to be printed and distributed an advertisement which states "Do not confuse Perma Lox Aluminum Shingles with imitations or other aluminum products of similar name. Only Perma Lox has all these features," full well knowing that the plaintiff's shingle, which Bergman has purloined to his own use, contained the four features mentioned specifically in the advertisement, notwithstanding Bergman's allegation that "only Perma Lox has all these features."

Plaintiff further avers on information and belief that defendant Bergman has, by his actions and words, advised competitors to infringe plaintiff's patent on the ground that he considers the patent invalid in view of previous patents, and that these competitors have nothing to fear from the continuous manufacture of the patented shingle, notwithstanding advice to the contrary by plaintiff. De-

defendant Bergman has defiantly ignored plaintiff's demands that he shall cease infringement and has represented to the trade and to his customers that he will continue to make a duplicate of plaintiff's shingle, notwithstanding plaintiff's rights in the patent which were acquired through considerable expense and development cost to plaintiff, thus allowing defendant Bergman and his company to manufacture and sell shingles according to the patent at a reduced price because he had no such expense.

7. Notice.

That public notice pursuant to Statute has been given by the plaintiff by stamping on each shingle notice of the ownership of said patent by the plaintiff setting forth the number 2,631,552 of said patent in suit, all as required by law. In addition, plaintiff has notified the trade through advertisement that the improved shingle has been patented.

Defendants have been individually notified shortly after the issuance of the patent that plaintiff's shingle which they were duplicating was covered by the said patent, and defendants, each of them, have deliberately refused to heed this notification.

8. Public Acquiescence.

Plaintiff's shingle, manufactured prior to and since the issuance of patent No. 2,631,552, has had no infringers or imitators until the defendants herein have separately infringed and together have conspired to infringe and have encouraged others to infringe. The trade has accepted plaintiff's improved shingle, except for defendants' conspiracy to discredit plaintiff's improvement and the patent

based thereon. Defendant Bergman has openly avowed that he will break the patent and will continue to make and use the features of plaintiff's shingle, showing the deliberate intent to infringe by said Bergman.

9. Damages.

That the defendants have derived unlawful gains and profits from such infringement by the manufacture, use and/or sale of the infringing shingles which the plaintiff would otherwise have received, but for such infringement by the defendants, and such infringement by the defendants has caused plaintiff irreparable damage and injury by loss of good will, prestige, customers and customer relationships as well as loss of the profits from the shingles it would otherwise have sold if the defendants had not sold them, and will continue so to do unless enjoined by this Court. This damage is aggravated by the fact that the defendants, Harry X. Bergman and Perma-Lox Aluminum Shingle Corporation and their distributors and agents, have represented themselves to many of plaintiff's customers to be the sales agent of the plaintiff; wherefore, this plaintiff prays that this wilful damage of irreparable character and the destruction of these customer relationships by the defendants has multiplied the general damage suffered by the plaintiff to not less than three-fold said general damage.

10. Prayer.

The plaintiff, therefore, prays:

(a) For a preliminary and a permanent injunction restraining the defendants, and each of them,

their officers, agents, servants and employees, from directly or indirectly making or causing to be made, selling or causing to be sold, and/or using or causing to be used the shingles covered by said Letters Patent No. 2,631,552 and from infringing upon and violating the same, in any manner whatsoever, and from committing the acts herein complained of.

(b) For a decree of the Honorable Court enjoining defendants, separately and collectively, from competing unfairly with plaintiff in the sale of metal shingles in the manner of sale, the representations made to prospective customers and in advertising, particularly in making false statements, and other violations of fair trade practices.

(c) For recovery of its general damage and for recovery of its special damage and the trebling thereof for the wilful nature of said infringement and for recovery of costs and attorney fees in view of the flagrant character of the unfair competition and wilful infringement of the defendants as set forth herein.

(d) For such other and further relief as the Court may deem meet, just and proper.

/s/ S. J. BISCHOFF,
Attorneys for Plaintiff

/s/ H. A. TOULMIN, JR.
Of Counsel

[Endorsed]: Filed July 27, 1953.

[Title of District Court and Cause.]

ANSWER AND COUNTERCLAIMS

Comes now Defendants, Harry X. Bergman and Perma-Lox Aluminum Shingle Corporation, and answer the complaint as follows:

1. Defendants admit the allegations contained in paragraph 1 of the complaint.

2. Defendants admit the allegations contained in paragraphs 2(a) and 2(b) of the complaint, except that Perma-Lox Aluminum Shingle Corporation is not a manufacturing agent of Defendant Harry X. Bergman, but a sales organization for selling aluminum shingles. Defendants deny that they have committed or are committing acts of infringement complained of.

3. Defendants admit the allegations contained in paragraph 3 of the complaint.

4. Defendants deny the allegations contained in paragraph 4 of the complaint, except that United States Letters Patent No. 2,631,552 issued to Louis J. Korter and that said patent was assigned to Plaintiff.

5. Defendants deny the allegations contained in paragraph 5 of the complaint.

6. Defendants deny each and every allegation of paragraph 6 of the complaint, except that Defendant, Harry X. Bergman, (hereinafter sometimes referred to as Bergman), did have a roof applied to his house which was sold to him by Plaintiff, that he does sell under the name of Perma-Lox Alumi-

num Shingle Corporation (hereinafter sometimes referred to as Perma-Lox), aluminum shingles for the roofing of houses, that he did cause to have printed and distributed an advertisement which stated, "Do not confuse Perma-Lox Aluminum shingles with imitations or other aluminum products of similar name. Only Perma-Lox has all these features," and that he has stated and believes that Plaintiff's patent No. 2,631,552 is invalid.

7. Defendants are without information or knowledge sufficient to form a belief as to the truth of the allegations of paragraph 7 of the complaint, except that Defendants Harry X. Bergman and Perma-Lox Aluminum Shingle Corporation have never been notified by Plaintiff that they were infringing its patent.

8. Defendants deny each and every allegation of paragraph 8 of the complaint, except that Defendant, Bergman, has openly stated that Plaintiff's patent No. 2,631,552 is invalid.

9. Defendants deny each and every allegation of paragraph 9 of the complaint.

10. For a further and separate defense, Defendants allege that United States Letters Patent No. 2,631,552, issued to L. J. Korter, is invalid, void, and of no effect in law for the following reasons among others:

A. Because, by reason of the state of the prior art existing at the time of the alleged invention by L. J. Korter of the thing alleged to be described and patented in said patent, said thing was not an invention and did not require the use of any exercise of

any inventive faculty for its production, was obvious to and involved only the mechanical or ordinary skill of those versed in the art to which said things pertained, and was not patentable.

B. Because L. J. Korter was not the original, or first, or sole, or any inventor or discoverer of any alleged invention alleged to be patented in and by said Letters Patent.

C. Long prior to the alleged invention thereof by L. J. Korter, and more than one year prior to the filing of the application for said Letters Patent, the alleged invention and every material and substantial part thereof had been shown, described and patented in and by each of the following Letters Patents of the United States and foreign countries and had been invented, known publicly, used, on sale and sold by each of the patentees at the places respectively named in said Letters Patents, and each of the said patentees was the first and original inventor thereof and at all times were using reasonable diligence in adapting and perfecting the same, and the respective places and residences of the patentees are specifically set forth in said Letters Patents, to-wit:

Number	Name	Date
124,963	Lewando	March 26, 1872
140,928	Lewando	July 15, 1873
220,181	Slaughter	Sept. 30, 1879
262,475	Repp	Aug. 8, 1882
303,921	Cusack	Aug. 19, 1884
553,514	Crawford	Jan. 28, 1896
1,026,202	Clawson	May 14, 1912

1,406,757	Pruden	Feb. 14, 1922
1,763,870	Talmage	June 17, 1930
1,971,517	Belding	Aug. 28, 1934
2,173,774	Birch et al.	Sept. 19, 1939
2,213,519	Faber	Sept. 3, 1940
2,243,256	Miller	May 27, 1941

Foreign Patents

No. 399 Great Britain Dated 1869

And other Letters Patents of the United States and foreign countries and publications, the exact numbers and dates and the names of the patentees of which are at present unknown to the Defendants, but which numbers and dates and names Defendants pray leave to insert in this answer by amendment thereto when ascertained.

D. Because more than one year prior to the filing of the application for said Letters Patent, and prior to the alleged invention by L. J. Korter of the alleged invention claimed in said Letters Patent, said alleged invention had been in public use and on sale and had been known by various persons, firms and corporations in various and sundry places in the United States of America, the exact names and locations of which Defendants pray leave to insert in this answer by amendment thereto when ascertained.

E. Because of the proceedings had or taken in the Patent Office during the prosecution of the application for said Letters Patent or because its claim was by amendment limited in scope in order to se-

cure its allowance, Plaintiff is estopped to assert an interpretation which would enable such claim to include the accused article.

11. For a further and separate defense, Defendants allege that the complaint should be dismissed because Plaintiff has unclean hands and is not entitled to any relief in a court of equity for the following reasons:

A. Plaintiff has wilfully and deliberately misled and deceived the public by:

1. Altering and defacing a document of the United States government, the original of United States Letters Patent No. 2,631,552, and prominently advertising, publishing and otherwise displaying said defaced document to make it appear that Plaintiff, Aluminum Lock Shingle Corporation of America, was the patentee of said invention, when, in truth and in fact, Plaintiff was not and could not have been the patentee of the invention, but merely the assignee.

2. Prominently displaying in its advertisements a photograph or design of a portion of the overlapped interlocking edges of a shingle along with reference to said patent to make it appear that the patent had been granted on said interlocking feature, when, in truth and in fact, and to Plaintiff's own knowledge, the patent could not have been granted on said feature because interlocking shingle edges were known long prior to the alleged date of invention of said patent.

3. Making it appear from its advertising and displays that Plaintiff, Aluminum Lock Shingle

Corporation of America, and the Aluminum Company of America (Alcoa) are either one and the same or connected in some way, when, in truth and in fact, there is no corporate connection between the two.

4. Advertising its shingles as being sold "across the United States," when in fact they are not; that it is "World's Largest Manufacturer," when in fact Plaintiff is not a manufacturer, but a sales organization; that its shingles have certain features which no other shingles have, when in fact other shingles have all these features and more.

B. Plaintiff, during the periods that the Office of Price Stabilization was in force, violated price ceilings on the patented shingles, and an action for said violations is pending in this Court—United States vs. Aluminum Lock Shingle Corp., Civ. 6531.

C. Plaintiff sells the patented shingles in packages labeled "one square" which means that the package is supposed to contain 100 square feet. In fact, said packages usually contain only about 93 square feet, and the public is thereby being misled and defrauded.

D. Plaintiff has been guilty of unfair competitive practices and violations of the antitrust laws, hereinafter set forth in counterclaims two and three, which allegations are here incorporated, referred to and made a part hereof.

Defendants' First Counterclaim

For a further and separate defense by way of a counterclaim against Plaintiff and praying for af-

firmative relief and for cause of action, Defendants, Harry X. Bergman and Perma-Lox Aluminum Shingle Corporation, allege:

I.

In addition to the grounds for jurisdiction referred to in paragraph 3 of Plaintiff's complaint filed herein, the grounds upon which this Court's jurisdiction depends in this counterclaim is that it is a counterclaim for declaratory judgment under Title 28, United States Code, Section 2201, arising from an actual controversy between Plaintiff and Defendants as to the alleged infringement by Defendants of alleged rights which Plaintiff claims to possess by virtue of its alleged ownership of rights under a certain United States Letters Patent No. 2,631,552.

II.

Plaintiff and Defendants are competitors in the business of selling aluminum shingles.

III.

Plaintiff has charged Defendants with infringement of United States Letters Patent No. 2,631,552, issued to L. J. Korter, and made a demand for injunction restraining Defendants from manufacturing, selling, or using aluminum shingles, which allegedly infringe said Letters Patent, and for judgment and recovery for alleged infringement of said patent.

IV.

At no time have Defendants infringed said Let-

ters Patent, and at all times Plaintiff knew and now knows that Defendants do not infringe the Letters Patent.

V.

Defendants, at all times, have had and now have the right to use the articles charged to infringe without any interference from Plaintiff by reason of anything allegedly contained in or covered by said Letters Patent.

VI.

Defendants are proceeding with the use of said articles, and Defendants and their customers will be irreparably damaged unless the disputed rights of the Plaintiff and Defendants are determined and declared as promptly as possible.

VII.

Said United States Letters Patent No. 2,631,552 is unenforceable and invalid, void and of no effect in law for the reasons set forth with respect to said Letters Patent in paragraph 10 A-E of Defendants' answer to the complaint herein set forth, which reasons and each of them are now referred to and made a part hereof.

Defendants' Second Counterclaim

As a second counterclaim against Plaintiff, Defendants allege:

I.

In addition to the grounds for jurisdiction referred to in Paragraph 3 of Plaintiff's complaint and Paragraph I of Defendants' first counterclaim

filed herein, the grounds upon which this Court's jurisdiction depends are that the cause of action for unfair competition hereinafter complained of is joined with a related cause of action involving the Patent Laws of the United States.

II.

Plaintiff has been unfairly competing with Defendants as follows:

A. Plaintiff's president, L. J. Korter, and one Elias Silver conspired to destroy Perma-Lox's business. At one time, Silver was Perma-Lox's sales manager and was in a vital position to effect the success or failure of the business. Silver maliciously attempted, with the assistance and at the instigation of Plaintiff's president L. J. Korter, to destroy Defendants' financial condition and standing and otherwise discredit Defendants in the eyes of the buying public, its customers, its salesmen, its workmen, and others who might contribute to the success of Defendants' business. Furthermore, Plaintiff obtained confidential information concerning Defendants, which Plaintiff employed to their great detriment through Silver, one of whose functions was to keep Plaintiff continually informed as to the innermost workings and secrets of Defendants.

B. On information and belief, Elias Silver is presently associated with Plaintiff and Plaintiff is continuing unfairly to profit by the confidential information acquired by Silver in the course of his employment with Perma-Lox.

C. Plaintiff, through its president and author-

ized agents, has interfered with the contractual relations of Defendants by inducing and attempting to induce customers of Defendants who had entered into or were about to enter into contractual relationship with Defendants not to enter into or to cancel their contracts with Defendants by:

1. Stating prior to the commencement of the instant action that the Perma-Lox corporation was in bad standing and that the government was going to close up Defendants' business because of a conviction of infringement of Aluminum Lock's patent, and that Perma-Lox would be out of business very soon, and that its guarantee was meaningless and would be no protection to homeowners who bought roofs from Defendants.

2. Stating prior to the commencement of the instant action that Plaintiff had started a court action against Perma-Lox which would shut up its business within a short time.

3. Prior to the issuance of said patent, Plaintiff threatened customers of Defendants with patent infringement suits, maintaining that a patent had been issued to Plaintiff.

4. Making disparaging statements concerning Defendants' business, and referring to Defendants as a "fly-by-night outfit which would not last", and similar disparaging, untrue and injurious statements concerning Defendants.

D. Plaintiff's president, L. J. Korter, induced and attempted to induce salesmen and employees of Perma-Lox to sever connections with Perma-Lox by falsely representing to them that Perma-Lox

would not have merchandise or workmen (applicators) to apply roof shingles, and would be out of business within a short time.

III.

The allegations concerning Plaintiff's unclean hands appearing in Paragraph 11 A-C of the foregoing Answer are hereby adopted and incorporated for the purpose of setting forth additional unfair business practices of Plaintiff.

Defendants' Third Counterclaim

As a third counterclaim against Plaintiff, Defendants allege:

I.

This counterclaim is brought under the provisions of Section 4 of the Act of Congress of October 15, 1914, c. 323, 38 Stat. 731 (15 U.S.C. Sec. 15), entitled "An Act to Supplement Existing Laws Against Unlawful Restraints and Monopolies and for Other Purposes", known as the Clayton Act, for damages sustained by Defendants and in compensation for injuries suffered by Defendants in their business and property.

II.

Defendants have been injured by reason of the unfair competitive practices of Plaintiff and by the unlawful acts of Plaintiff in restraint of interstate commerce, and by reason of the commission by Plaintiff of other acts forbidden in Sections 1 and 2 of the Act of Congress of July 2, 1890, c. 647, 26 Stat. 209, as amended (15 U.S.C. Sections 1 and 2),

entitled "An Act to Protect Trade and Commerce Against Unlawful Restraints and Monopolies", commonly known as the Sherman Act, all as hereinafter more particularly set forth.

III.

The aluminum shingle business is a relatively new business which has developed since the last war, although there were sporadic earlier attempts, it was not until aluminum could be produced inexpensively and in quantities that the business became economically feasible.

IV.

On information and belief, Plaintiff went into the aluminum shingle business in 1947 and, by means of aggressive and ruthless business tactics, soon became the dominant factor in the business.

V.

In or about May, 1952, Defendant, Harry X. Bergman, a highly respected Portland business man, became interested in the aluminum shingle business and its possibilities. Bergman first became associated with one Philip Polsky who had been manufacturing aluminum shingles. Subsequently, Bergman decided to acquire a business of his own and bought the business of the American Aluminum Shingle Corporation, which had also been manufacturing and selling aluminum shingles. Bergman organized the American Aluminum Sales Corporation, which was the predecessor of Defendant Perma-Lox Aluminum Shingle Corporation. The business gave

every indication of being a profitable one and Bergman invested substantial sums of money therein.

VI.

The situation, after Defendants started selling shingles, was that they were Plaintiff's only competitor in the business of selling aluminum roofing shingles.

VII.

Plaintiff and Defendants sell their products in interstate commerce, and particularly in the states bordering Oregon.

VIII.

When Defendants commenced in the aluminum shingle business, Plaintiff's president, L. J. Korter, openly boasted that he would "get" Defendants and that he would run them out of business because the aluminum shingle business was his business and he would not stand for any competition.

IX.

The unfair competitive practices of Plaintiff complained of in the foregoing Second Counterclaim are hereby adopted and incorporated for the purpose of setting forth the willful, mendacious and unlawful course of conduct followed by Plaintiff in attempting to drive Defendants out of business.

X.

The hereinbefore alleged acts, agreements, monopoly, combinations and conspiracies have damaged Defendants' business, its reputation and good will,

alienated its customers, wrongfully slandered its product, wrongfully interfered with and interrupted its contracts and negotiations for contracts with its customers, and have put Defendants to great expenditure of money to continue in business and Defendants have lost profits on sales that would have accrued to them except for the unlawful and unwarranted acts and interferences of Plaintiff, all to Defendants' damage in the sum of One Hundred Thousand Dollars (\$100,000.00).

Wherefore, Defendants pray:

1. That the complaint herein be dismissed and the Plaintiff take nothing by this suit.
2. For a judgment of invalidity of United States Letters Patent No. 2,631,552.
3. For a judgment of non-infringement of said patent.
4. For an injunction restraining Plaintiff, its officers, agents, servants, and employees from directly or indirectly competing unfairly with Defendants in the sale of shingles.
5. For an injunction restraining Plaintiff, its officers, agents, servants, and employees from asserting or charging that the shingles sold by Defendants infringe said Letters Patent and from suing or threatening to sue any customer or user of Defendants' shingles, or from interfering in any manner with Defendants' business in respect thereof.
6. For recovery of Defendants' damages suffered by Plaintiff's unfair competitive practices and in-

terference with Defendants' business and violations of the antitrust laws in an amount of One Hundred Thousand Dollars (\$100,000.00), and the trebling of said damages because of the willful and wanton wrongdoing of Plaintiff and as provided by 15 U.S.C. Section 15.

7. For recovery of costs and attorney fees in this action and for such other and further relief as the Court may deem just and proper and the circumstances warrant.

ROSENBERG, SWIRE & COAN,
/s/ J. PIERRE KOLISCH,
Attorneys for Defendants

Acknowledgment of Service attached.

[Endorsed]: Filed August 17, 1953.

[Title of District Court and Cause.]

SEPARATE ANSWER OF DEFENDANT VICTOR H. LANGVILLE, DOING BUSINESS UNDER THE ASSUMED NAME OF LANGVILLE MANUFACTURING COMPANY

Comes now the defendant, Victor H. Langville, doing business under the assumed name of Langville Manufacturing Company and answering the plaintiff's complaint herein alleges:

I.

Admits paragraph 1 of the complaint.

II.

Admits the allegations contained in paragraphs 2(a) and 2(b) and 2(c), except the allegations in lines 15 and 16 of paragraph 2(c), and except that he denies that he has committed or is committing any acts of infringement complained of in the complaint.

III.

The defendant admits paragraph 3.

IV.

The defendant denies the allegations contained in paragraph 4 of the complaint, except that United States Letters Patent No. 2,631,552 issued to Louis J. Korter and that said patent was assigned to the plaintiff.

V.

The defendant denies paragraph 5 of the complaint.

VI.

Answering paragraph 7, the defendant denies that he has any knowledge or information sufficient to form a belief as to the allegations therein contained, except that this defendant denies that he has ever been notified by the plaintiff that he was infringing its patent.

VII.

Answering paragraph 8, the defendant denies the same and each and every allegation thereof, except that this defendant has no knowledge regarding the allegations contained in the last sentence of said

paragraph relating to the alleged contract of the defendant Bergman.

VIII.

Answering paragraph 9, this defendant denies the same and each and every allegation therein contained.

Wherefore, this defendant prays that the complaint be dismissed, that said patent No. 2,631,552 be adjudged invalid and that it be adjudged that this defendant has not infringed the same.

/s/ B. G. SKULASON,
Attorney for Defendant Victor H. Langville, doing
business under the assumed name of Langville
Manufacturing Company

Acknowledgment of Service attached.

[Endorsed]: Filed Aug. 28, 1953.

[Title of District Court and Cause.]

RULING ON PLAINTIFF'S MOTIONS DIRECTED TO DEFENDANTS' ANSWER AND COUNTERCLAIM

Note. The numbers 1, 2, 3, 4 below correspond to penciled numbers which I have placed on originals of Motions.

1. 10e. The allegations of estoppel should be enlarged. The rest is denied.

2. Paragraph 11b is stricken. Decision as to the rest reserved until the pre-trial and trial. I am not

impressed by some of the allegations, but modern patent decisions are wondrous things.

3. Decision reserved.

4. Same as 3.

I realize that the parties are closing in for hard fighting, and that the extensive briefs at this stage are for the education of the court, for the later day when serious legal issues will have to be met and resolved.

Dated November 17, 1953.

/s/ CLAUDE McCOLLOCH,
Judge

[Endorsed]: Filed Nov. 17, 1953.

[Title of District Court and Cause.]

AMENDMENT TO ANSWER

Defendants Harry X. Bergman and Perma Lox Aluminum Shingle Corporation in accordance with the Court's ruling dated November 17, 1953, hereby amend Paragraph 10(e) of their Answer in this cause by adding thereto the following information in support of the contention that plaintiff is estopped to assert an interpretation which would enable Korter Patent 2,631,552 to include the accused article.

1. Korter amendment received in Patent Office March 19, 1951 and applicant's remarks contained therein.

2. Korter amendment received in Patent Office June 6, 1952 and remarks contained therein.

3. Korter amendment received in Patent Office October 7, 1952 and remarks contained therein.

4. Korter amendment received in Patent Office October 10, 1952 and remarks contained therein.

5. Attorney's letter to Commissioner of Patents dated December 1, 1952.

6. Korter amendment received in Patent Office January 15, 1953 and remarks contained therein.

7. Affidavit of E. B. Birkenbeuel dated December 8, 1952.

8. Korter amendment received in Patent Office January 28, 1952, and remarks contained therein.

9. Korter amendment received in Patent Office February 9, 1953 and remarks contained therein.

/s/ J. PIERRE KOLISCH,
Attorney for Defendants Harry X. Bergman and
Perma Lox Aluminum Shingle Corporation.

Acknowledgment of Service attached.

[Endorsed]: Filed Dec. 3, 1953.

[Title of District Court and Cause.]

REPLY

Comes now the plaintiff above named and for reply to the affirmative defenses and counterclaims set forth in the Answer of Defendants Harry X. Bergman and Perma-Lox Aluminum Shingle Corporation, admits, denies, and alleges as follows:

Reply to the Further and Separate Defenses

I.

Denies each and every of the allegations set forth in paragraphs 10 A-B-C-D and E, and the whole thereof.

II.

Denies each and every of the allegations set forth in paragraphs 11 A-B-C and D, and the whole thereof.

Reply to First Counterclaim

I.

Admits the allegations set forth in paragraphs numbered I, II and III of the first counterclaim.

II.

Denies each and every of the allegations set forth in paragraphs IV, V, and VII of the first counterclaim.

III.

Admits that the defendants are proceeding with the use of said articles and, except as herein specifically admitted, denies each and every of the allegations set forth in paragraph VI of the first counterclaim.

Reply to Second Counterclaim

I.

Denies each and every of the allegations set forth in the Second Counterclaim.

Reply to Third Counterclaim

Denies each and every of the allegations set forth

in the paragraphs numbered I, II, III, V, VI, VIII, IX and X of the third counterclaim.

II.

Admits that plaintiff went into the aluminum shingle business in 1947; that it developed its business by extensive advertising, selling campaigns and other lawful business practices; that it established a large and profitable business and, except as herein specifically admitted, denies each and every of the allegations set forth in paragraph IV of the third counterclaim.

III.

Admits that plaintiff is engaged in intra-state and interstate commerce and alleges that it is without knowledge or information sufficient to form a belief as to the remainder of the allegations set forth in paragraph VII of the third counter-claim.

For affirmative replies to the counterclaims set forth in the answer, plaintiff alleges:

I.

That the Court is without jurisdiction of the subject matter of the second and third counterclaims.

II.

The first counterclaim fails to state a claim against plaintiff upon which relief can be granted.

III.

The second counterclaim fails to state a claim

against plaintiff upon which relief can be granted.

IV.

The third counterclaim fails to state a claim against plaintiff upon which relief can be granted.

V.

That plaintiff commenced to do business of manufacturing and selling aluminum shingles in 1947; that in the promotion of its business, it expended large sums of money for advertising its products in newspapers, circulars and other advertising media; that it adopted trade-names, trade-marks, designs and forms of advertising material and pictures, and utilized the same in connection with the promotion of its business; that it procured the patent upon the product which it manufactured and sold and that by means of these and other activities, plaintiff built up a large and profitable business; that in the year 1952 defendants Bergman and Perma-Lox Aluminum Shingle Corporation engaged in the business of manufacturing and selling aluminum shingles in competition with plaintiff; that it adopted the form and design of aluminum shingle covered by plaintiff's patent and have been, and are now, engaged in selling aluminum shingles which infringe plaintiff's patent; that they adopted and utilized in the advertising of their product, advertising material, forms of advertising, trade-marks, trade-names, designs and pictures in their newspaper, periodical and circular advertising which were the same as and greatly resembled the

advertising material of the plaintiff; and they induced employees of the plaintiff to leave its employ and to take employment with the defendants in order to learn and avail themselves of the manufacturing and selling techniques of the plaintiff in the manufacturing and marketing of its products; that said defendants and their employees and agents, with the knowledge and consent of the said defendants, falsely represented to prospective customers that they were representatives of the plaintiff; that they were selling plaintiff's product and in some instances, that plaintiff was the representative of the defendants, and falsely, fraudulently represented that they had the right to sell aluminum shingles of the same design and character as the shingles produced by plaintiff and governed by its patent, and defendants did engage in many other and numerous unfair and dishonest competitive practices and still are engaged therein and by reason thereof, defendants are in Court with unclean hands and are not entitled to any equitable relief herein.

Wherefore, plaintiff prays for a decree and judgment in accordance with prayer of the complaint and that the defendants' counterclaims be dismissed.

/s/ S. J. BISCHOFF,

/s/ TOULMIN & TOULMIN

Acknowledgment of Service attached.

[Endorsed]: Filed Feb. 11, 1954.

[Title of District Court and Cause.]

STIPULATION

The Court having directed that the issues of the validity of the Plaintiff's patent and infringement thereof by Defendants, be segregated and tried prior to the trial of the other issues presented by the pleadings, it is

Stipulated by and between the parties hereto that all motions and proceedings now pending before the Court, to-wit:

Plaintiff's motion to compel Defendant Bergman to answer oral interrogatories on deposition;

Plaintiff's motion for inspection of documents and records;

Plaintiff's motion for the issuance of a subpoena duces tecum;

Defendants' objections to written interrogatories propounded by Plaintiff,

be deferred until after the trial and determination of the issues referred to above.

Dated: February 18, 1954.

/s/ S. J. BISCHOFF,
Attorney for Plaintiff

/s/ J. PIERRE KOLISCH,

Attorney for Defendants Bergman and Perma-Lox
Aluminum Shingle Corporation

/s/ B. G. SKULASON,

Attorney for Defendant
Langville

[Endorsed]: Filed March 25, 1954.

[Title of District Court and Cause.]

ORDER

Pursuant to the Stipulation entered into between the parties on February 18, 1954, it is hereby ordered that:

1. The answer of defendants, Harry X. Bergman and Perma-Lox Aluminum Shingle Corporation, is hereby amended by adding to Paragraph 10-B the following:

Said alleged invention had been previously invented by Walter Nab of 4316 S. E. Hawthorn Boulevard, Portland, Oregon.

2. Paragraph 10-D of said defendants' answer be amended by erasing the balance of the paragraph, beginning with "various persons, firms * * *" and substituting: Walter Nab of 4316 S. E. Hawthorn Boulevard, Portland, Oregon.

3. Ordinary uncertified copies of United States Letters Patent, foreign patents and file wrappers of patents, and photostatic copies thereof may be

offered and used in evidence by either party with the same force and effect as the originals or duly certified copies thereof, and said patents shall be deemed to be applied for and granted on the date printed thereon, all subject to correction if error be made to appear therein and subject to the same objections as the originals or duly certified copies thereof.

4. The parties have not waived whatever rights they may have to request the court for attorneys fees for the patent phase of the case.

Dated at Portland, Oregon, this 25th day of March, 1954.

/s/ JAMES ALGER FEE,
Judge, U. S. District Court

[Endorsed]: Filed March 25, 1954.

[Title of District Court and Cause.]

PRE-TRIAL ORDER

This matter came on for pre-trial conference on the 25th day of March, 1954, on the segregated issues of validity and infringement of Korter patent No. 2,631,552, before the undersigned Judge of this court. The parties were present and represented by counsel. The Court, on its own motion, directed that the issues of validity of plaintiff's patent and infringement thereof by defendants, be segregated and tried first; that all proceedings pertaining to

all of the other issues be deferred until the trial and determination of said segregated issues and, by reason thereof, this pre-trial order is limited to the issues so segregated to be first tried and determined.

Agreed Statement of Fact

1. Plaintiff, Aluminum Lock Shingle Corporation of America, is a corporation duly organized and existing under the laws of the State of Oregon, having a regular and established place of business at 725 S.E. Powell Boulevard, Portland 2, Oregon.

2. Defendant, Harry X. Bergman, is a resident of Portland, Oregon.

3. Defendant, Perma Lox Aluminum Shingle Corporation, is a corporation duly organized and existing under the laws of the State of Oregon, having a regular and established place of business at 427 S.W. 13th Avenue, Portland, Oregon.

4. Defendant, Victor H. Langville, is an individual doing business in the State of Oregon under the assumed name of Langville Manufacturing Company, having a regular and established place of business at 2036 S. E. Grant Avenue, Portland, Oregon.

5. Plaintiff is the owner of United States Letters Patent Number 2631552 granted to Louis J. Korter on March 17, 1953. on application filed January 9, 1950, Number 137566.

6. The accused structure (aluminum shingle claimed by plaintiff to be an infringement of its patent) is plaintiff's Exhibit 1, and plaintiff's shin-

gle manufactured and sold under its patent, is plaintiff's Exhibit 2.

7. Defendant Perma-Lox Aluminum Shingle Corporation sold the accused structure and defendant Langville manufactured it for defendant, Perma-Lox Aluminum Shingle Corporation, from July 1952 to date.

Plaintiff's Contentions

I.

Korter Patent No. 2631552, owned by plaintiff, is valid and covers a new and useful process, machine, manufacture, composition of matter and new and useful improvement thereof.

II.

That the said invention was not known or used before his invention or discovery thereof, was not patented or described in any printed publication in any country before his invention or discovery or more than one year prior to his applications.

III.

That the said invention has not been in public use or on sale in the United States for more than one year prior to the application for this patent.

IV.

That Walter Nabb of 4316 S. E. Hawthorne Boulevard, Portland, Oregon, did not invent the invention covered by plaintiff's patent prior to plaintiff's invention, or at all, and did not publicly

or otherwise use, manufacture, or sell said invention at any time at any place.

V.

That said patent is not invalid for any reason.

VI.

That defendants Perma-Lox Aluminum Shingle Corporation and Harry X. Bergman committed acts of infringements of the aforesaid patent within the six years of the filing of the complaint and are committing acts of infringement thereof and are threatening to continue to do so by selling aluminum shingles that are infringements upon the plaintiff's patent.

VII.

That defendant Langville has committed, and is committing, acts of infringement of plaintiff's patent by manufacturing aluminum shingles for the defendant Harry X. Bergman and Perma-Lox Aluminum Shingles Corporation, which infringe plaintiff's patent and has so manufactured the same within six years of the filing of the complaint, and threatens to continue to do so.

VIII.

That defendants have, within six years of the filing of the complaint, infringed the said Letters Patent and are now infringing the same, and threaten to continue to infringe, by making, causing to be made, selling or causing to be sold, and/or using or causing to be used, shingles within this dis-

trict and within the jurisdiction of this Court embodying the invention disclosed and claimed in said Letters Patent owned by the plaintiff, the same having been done and is being done willfully and without the consent of the plaintiff.

IX.

That plaintiff is entitled to a decree enjoining defendants, and each of them, their officers, agents, servants and employees, from directly or indirectly making or causing to be made, selling or causing to be sold, and/or using or causing to be used, shingles covered by said Letters Patent, and from infringing upon and violating the same in any manner whatsoever, and from committing the acts herein complained of.

X.

That the affirmative defense, set forth in Paragraph 10 of the Answer of defendants Bergmann and Perma-Lox Aluminum Shingle Corporation, fails to state facts sufficient to constitute a defense.

XI.

That plaintiff's said patent is not invalid or void, for any other reasons, set forth in said Paragraph 10 of said defendants' Answer; that L. J. Korter, plaintiff's assignor, was the original, first, and sole inventor and discoverer *or* the invention covered by said Letters Patent; that it was unknown to the prior art; that the invention is not covered by any prior patent in this or any other country and said invention was not publicly used or on sale or sold

by any other patentee at any place prior to plaintiff's invention; that plaintiff's invention had not been in public use or on sale and was unknown anywhere to any person prior to plaintiff's invention or more than one year prior to the filing of the application for the patent.

XII.

That plaintiff is not estopped by any proceedings in the Patent Office of the United States to assert the validity of the aforesaid patent or the interpretation thereof in accordance with the terms and claim of said patent.

Plaintiff's Exhibits

(1) United States Letters Patent 2631552 granted to Louis J. Korter.

(2) Four (4) Aluminum Shingles manufactured according to said patent.

(3) Four (4) Aluminum Shingles manufactured and sold by defendants and claimed by patent to be an infringement of plaintiff's patent.

(4) Deposition of Harry X. Bergman, defendant, taken February 10, 1954.

(5) Diagram showing principle of Korter's invention.

(6) Chart relating element of Korter's claim to drawings of patent.

(7) Chart, comparison between Korter and Bergman shingles.

(8) Chart showing relation of Crawford's disclosure to Korter's claim.

(9) Chart showing relation of Miller's disclosure to Korter's claim.

(10) Four (4) shingles according to Crawford patent.

(11) Four (4) shingles according to Miller patent.

(12) Plaintiff's interrogatories to defendants and answers to interrogatories.

(13) Roof section made with plaintiff's shingle.

(14) Roof section made with defendants' shingle.

(15) Certified copy of record of the United States District Court of the District of Columbia in proceeding entitled "Louis J. Korter, plaintiff, vs. John A. Marzall, Commissioner of Patents, Civil Action No. 5495-52".

(16) [Stricken by the Court before trial as part of pre-trial conference Mar. 25, 1954. James Alger Fee.]

(17) Copy of Drawing of Design for interlocking metal shingle.

Defendants' Contentions

1. Korter patent 2,631,552 is invalid because:

a. All of the claimed elements are old and Korter's assembly of them produced no new or surprising result.

b. By reason of the state of the prior art existing at the time of the alleged invention by Korter of the matter disclosed in the patent, said matter was not an invention and did not require the use of any exercise of any inventive faculty for its production, was obvious to and involved only the

mechanical or ordinary skill of those versed in the art to which said matters pertain, and was not patentable.

c. L. J. Korter was not the original, or first, or sole or any inventor or discoverer of any alleged invention alleged to be patented in and by said Letters Patent.

d. The alleged invention was known to others before the alleged invention thereof by Korter.

e. The alleged invention was in public use or on sale in this country more than one year prior to the date of the application for patent.

f. The alleged invention, and every material and substantial part thereof had been shown, described and patented in and by each of the following Letters Patent of the United States and foreign countries:

- (1) Lewando: 124,963
- (2) Lewando: 140,928
- (3) Slaughter: 220,181
- (4) Cusack: 303,921
- (5) Crawford: 553,514
- (6) Clawson: 1,026,202
- (7) Belding: 1,971,517
- (8) Miller: 2,243,256
- (9) British patent to de Sincay, No. 399 of 1869

2. Defendants have not infringed the Korter patent, because:

a. the single claim in the Korter patent calls for "a drain slot disposed in the gutter of said shingle."

The accused structure does not have a drain slot in the gutter.

(1) Every element of a claim is material and the drain slot is particularly material in the Korter patent because during the prosecution of the application which resulted in the patent in suit, Korter distinguished his structure from the prior art on the basis of the drain slot.

b. The accused structure does not infringe because it has corrugations in its surface different from those in the patented shingle and the reversely turned edges are not formed in the same manner as those in the patented shingle. Furthermore, the accused shingle has a locking flange extending from the side which is not present in the patented shingle.

3. Even if it should be held that the Korter patent is valid and infringed, defendant, Harry X. Bergman, is not individually liable for infringement because he was acting merely as an officer of the defendant, Perma-Lox Aluminum Shingle Corporation, which sold the accused shingles.

4. There is no utility in the provision of a drain slot as taught in the Korter patent.

Defendants' Exhibits

25. Sample of shingles made according to Crawford, patent No. 553,514.

26. Sample of shingles made according to Miller patent No. 2,243,256.

27. Shingle made by Langville Manufacturing Company, May 1949.

[In longhand: Plaintiff's Ex. 18.] Certified copy of file wrapper of abandoned Korter application No. 776,332.

29. Certified copy of file wrapper of Korter patent No. 2,631,552.

30. Copy of Crawford patent 553,514.

31. Copy of Miller patent 2,243,256.

32. Copy of Lewando patent 124,963.

33. Copy of Lewando patent 140,928.

34. Copy of Clawson patent 1,026,202.

35. Copy of Slaughter patent 220,181.

36. Copy of Cusack patent 303,921.

37. Copy of Belding patent 1,971,517.

38. Copy of de Sincay Britist patent No. 399 of 1869.

39. Copy of Langville patent Des 166,761.

40. Copy of Pruden patent No. 1,406,757.

41. Deposition of L. J. Korter, president of plaintiff, Aluminum Lock Shingle Corporation of America, taken on September 9, 1953.

42. Sample of shingle made according to abandoned Korter application No. 776,332.

43. Sample of two felt pads.

44. Parsed claim of Korter patent.

Issues of Fact

1. Was Korter No. 2,631,552 patented in this or or foreign country before the date of Korter's application for patent?

2. Was the Korter invention known or used by others in this country before the alleged invention thereof by Korter?

3. Was Korter the inventor of the subject matter patented in patent No. 2,631,552?

4. Was the Korter invention in public use or on sale in this country more than one year prior to the date of the patent application?

5. If there is any difference between the subject matter of patent No. 2,631,552 and the prior art, is this difference one which would not have been obvious to a person having ordinary skill in the art?

6. Are any of the elements claimed in the Korter patent new?

7. If none of the elements in the patent are new, did Korter's assembly of them produce any new or surprising result?

8. Is the Korter patent valid?

9. If the Korter patent is valid does the accused structure infringe?

Issues of Law

1. Is Korter patent 2,631,552 valid?

2. If the Korter patent is valid, does the accused structure infringe?

3. If the Korter patent is valid and infringed, is the defendant, Harry X. Bergman, personally liable for infringement?

It is ordered, that the Answer of Defendants Bergman and Perma-Lox Aluminum Shingle Corporation be, and the same hereby is, deemed amended in accordance with the Stipulation of the parties filed herein dated February 18, 1954.

This pre-trial order has been formulated after

conferences at which the litigants and their respective attorneys have appeared in Court. This Order supersedes the pleadings as to the issues of fact and the issues of law between the parties segregated by this Order and will control the course of the trial except as provided in the Stipulation dated February 18, 1954, and shall not be amended except by Order of the Court to prevent manifest injustice. This order includes two orders based on stipulation of attorneys relating to the issues herein and admission of exhibits.

Dated at Portland, Oregon, this 25th day of March, 1954.

/s/ JAMES ALGER FEE,
Judge, United States District Court

/s/ S. J. BISCHOFF

/s/ H. H. BROWN

Attorneys for Plaintiff

/s/ J. PIERRE KOLISCH

/s/ B. J. SKULASON

Attorneys for Defendants

[Endorsed]: Filed March 25, 1954.

[Title of District Court and Cause.]

FINDINGS OF FACT AND CONCLUSIONS OF LAW

This cause came on for trial upon the issues of the validity of the patent described in the Pre-trial Order entered herein and the issue of infringement

by the defendants and the Court having heard the evidence, finds the fact and states the conclusions of law as follows:

I.

This suit was brought under the Patent Laws of the United States by Aluminum Lock Shingle Corporation of America, a corporation duly organized and existing under the laws of the State of Oregon, having a regular and established place of business at 725 S. E. Powell Boulevard, Portland 2, Oregon, against Harry X. Bergman as an individual, resident of Portland, Oregon, also against Perma-Lox Aluminum Shingle Corporation, a corporation duly organized and existing under the laws of the State of Oregon, having a regular and established place of business at 427 S. W. 13th Avenue, Portland, Oregon, and also against Victor H. Langville, a resident of Portland, Oregon, as an individual and doing business under the assumed name of Langville Manufacturing Company, at 2036 S. E. Grand Avenue, Portland, Oregon.

II.

Victor H. Langville manufactures for the account of Harry X. Bergman and Perma-Lox Aluminum Shingle Corporation, aluminum shingles which infringe the patent in suit, and defendants, Harry X. Bergman and Perma-Lox Shingle Corporation receive these shingles from the said Victor H. Langville and sell such shingles and use the said shingles throughout the State of Oregon and many other States within the United States.

III.

The patent sued upon is United States Patent Number 2631552 for aluminum shingles issued to Louis J. Korter, March 17, 1953, on an application filed by the said Louis J. Korter on January 9, 1950, and co-pending application, Serial Number 776332 filed September 26, 1947, and assigned to plaintiff. Plaintiff has the legal title to and is the owner of the patent in suit.

IV.

The accused structure (aluminum shingle claimed by plaintiff to be an infringement of its patent) is plaintiff's Exhibit 3, and plaintiff's shingle manufactured and sold under its patent is plaintiff's Exhibit 2.

V.

Defendant Harry X. Bergman is the president of Perma-Lox Aluminum Shingle Corporation, its principal stockholder and the General Manager, and launched and organized the business of manufacturing and selling aluminum shingles (the accused structure) and had charge of the design of the said shingles that were manufactured by defendant Langville and sold by defendant Perma-Lox Aluminum Shingle Corporation.

VI.

Harry X. Bergman and Perma-Lox Aluminum Shingle Corporation sold the accused structure and defendant Langville manufactured it for defendant, Perma-Lox Aluminum Shingle Corporation, from July 1952, to at least the date on which the trial

was commenced on March 25, 1954, and thereby infringed upon plaintiff's patent.

VII.

That the Korter patent No. 2,631,552 owned by plaintiff is valid and covers a new and useful article or manufacture and a new and useful improvement thereof.

VIII.

That the invention set forth in the claim of the patent in suit was not known or used before the invention or discovery by Korter, was not patented or described in any printed publication in any country before his invention or discovery, or more than one year prior to his application on which the patent is based.

IX.

That the invention has not been in public use or on sale in the United States for more than one year prior to the application for the patent in suit.

X.

That none of the various patents relied upon by the defendants as allegedly showing prior art, do in fact anticipate or in any other manner detract from the full effective coverage of the Korter claim. These alleged prior art patents are:

Lewando: 124,963

Lewando: 140,928

Slaughter: 220,181

Repp: 262,475

Cusack: 303,921

Crawford: 553,514

Clawson: 1,026,202

Pruden: 1,406,757

Talmage: 1,763,870

Belding: 1,971,517

Birch et al: 2,173,774

Faber: 2,213,519

Miller: 2,243,256

British patent to de Sincay, dated Feb. 8,
1869: 399

Langville Design Patent: 166,761

and any other patent or publication or any prior use advanced by or on behalf of defendants.

XI.

That shingle structures or articles described and claimed by the Korter patent have not been invented, nor were they known specifically, nor used, nor were they placed on sale or sold by any one of the patentees at the places respectively named in the foregoing Letters Patent.

XII.

Plaintiff is not estopped to assert an interpretation which would enable plaintiff's claim, set forth in the Patent, to include the accused structure by the proceedings had or taken in the Patent Office during the prosecution of the Korter application and co-pending application for said Letters Patent.

XIII.

That each of said patentees named in defendants' answers, was not the first and original in-

ventor of the accused shingle structure, nor were they using reasonable diligence in adapting and perfecting the same.

XIV.

That Walter Nabb of 4316 S. E. Hawthorne Boulevard, Portland, Oregon, did not invent the invention covered by plaintiff's patent prior to plaintiff's invention, or at all, and did not specifically or otherwise use, manufacture or sell the invented shingles at any time or at any place.

XV.

That by reason of the state of the prior art existing at the time of the invention by L. J. Korter of the shingle structure described and patented in patent No. 2,631,552, the said structure was an invention and did require the use of the inventive faculty for its production, and was not obvious to and did not involve only the mechanical or ordinary skill of those versed in the art to which said structure pertained. The structure as shown and claimed in the Korter patent No. 2,631,552 is patentable and the patent is valid. In view of the state of the art, Korter is entitled to a reasonable range of equivalents.

XVI.

Plaintiff has not been guilty of any acts or conduct at any time which would constitute coming into this court with unclean hands in any of the respects set forth in the pleadings and pre-trial order.

XVII.

That each of the defendants were given notice pursuant to statute that the accused article was covered by Patent No. 2,631,552 by stamping on each shingle made and sold by plaintiff, notice of the ownership of said patent; that plaintiff had further notified the trade through advertisements that the shingle had been patented.

Conclusions of Law

I.

The Court has jurisdiction of the subject-matter of this suit and the parties thereto.

II

The L. J. Korter patent No. 2,631,552 was properly issued and validly granted.

III.

The Korter patent No. 2,631,552 is not anticipated by the prior art or by any prior use or prior patent and is a valid patent.

IV.

Each of the defendants, separately and collectively, has made, used and/or sold metal shingles which infringe the claim of the Korter patent No. 2,631,552.

V.

Defendants failed to sustain any of their contentions set forth in the pre-trial order.

VI.

That Korter is entitled to the filing date of September 26, 1947, of his application Serial No. 776,-332 for all subject matter which is common to his later filed application Serial No. 137,566 resulting in the patent in issue.

VII.

Plaintiff is entitled to the entry of a decree in its favor, adjudicating:

- (a) That the patent referred to herein is valid;
- (b) That the defendants have infringed the said patent;
- (c) That a permanent injunction should issue restraining and enjoining each of the defendants severally and jointly from committing further infringement of the Korter patent described herein;
- (d) That plaintiff is entitled to just compensation for the unauthorized past use and infringement of its patent.

Dated: September 26th, 1955.

/s/ JAMES ALGER FEE

United States Circuit Judge sitting by assignment to this Court.

Acknowledgment of Service attached.

[Endorsed]: Filed Sept. 26, 1955.

In the United States District Court for the
District of Oregon

Civil Action No. 7084

ALUMINUM LOCK SHINGLE CORPORA-
TION OF AMERICA, Plaintiff,

vs.

HARRY X. BERGMAN, et al., Defendants.

DECREE

This cause having come on for trial, argument and briefs and having been duly considered by the Court, it is now

Ordered, Adjudged and Decreed by this Court as follows:

I.

That United States Letters Patent No. 2,631,552 issued to Louis J. Korter on March 17, 1953, and assigned to plaintiff, Aluminum Lock Shingles Corporation of America, on an application filed by the said Louis J. Korter on January 9, 1950, and co-pending application, Serial No. 776332, filed September 16, 1947, for an "aluminum shingle" is good and valid and, in particular, the claim thereof in issue in this litigation.

II.

That the plaintiff, Aluminum Lock Shingle Corporation of America, is possessed of the full and entire right, title and interest in and to said Letters

Patent, together with all rights of action for past infringement thereof.

III.

That the defendants, Harry X. Bergman, Perma-Lox Aluminum Shingle Corporation, and Victor H. Langville doing business under the assumed name of Langville Manufacturing Company, all individually and collectively, have infringed said Letters Patent and particularly the claim thereof.

IV.

That the plaintiff have an accounting of each of said defendants, individually and collectively, of general damages which it is entitled to recover by reason of said infringement, which shall be due compensation for making, using or selling the invention, not less than a reasonable royalty therefor, including a recovery of its court costs herein expended.

V.

The Court reserves jurisdiction to determine the amount of damages suffered by plaintiff by reason of defendants' infringement of the said patent, including the determination of the amount of attorneys' fees to be allowed to the plaintiff herein.

VI.

The defendants, Harry X. Bergman, Perma-Lox Aluminum Shingle Corporation, and Victor H. Langville doing business under the assumed name of Langville Manufacturing Company, their agents, servants, employees, assigns, and all other persons

in active concert or in participation with them, are enjoined, permanently, directly or indirectly, from making, causing to be made, selling or causing to be sold, using or causing to be used, any aluminum shingles which infringe the said Korter patent No. 2,631,552.

VII.

The Court reserves jurisdiction of all issues, claims and counterclaims raised by the complaint and defendants' counterclaim except the issues determined by this decree.

VIII.

That the taxation of costs to the plaintiff be deferred until the entry of the final decree herein upon the remaining issues to be disposed of.

Dated: September 26, 1955.

/s/ JAMES ALGER FEE,
United States Circuit Judge sitting by assignment
to this District.

Acknowledgment of Service attached.

[Endorsed]: Filed September 26, 1955.

[Title of District Court and Cause.]

NOTICE OF APPEAL

Notice is hereby given that defendants, Harry X. Bergman, Perma-Lox Aluminum Shingle Corporation, and Victor H. Langville doing business under

the assumed name of Langville Manufacturing Company, appeal to the United States Court of Appeals for the Ninth Circuit from the Findings, Conclusions and Decree entered herein on September 26, 1955.

/s/ J. PIERRE KOLISCH,

/s/ BARDI SKULASON,

/s/ E. A. BUCKHORN,

/s/ ROBERT F. MAGUIRE,

Attorneys for Defendants

[Endorsed]: Filed October 25, 1955.

[Title of District Court and Cause.]

BOND ON APPEAL

Know All Men by These Presents:

That we, Harry X. Bergman, Perma-Lox Aluminum Shingle Corporation, and Victor H. Langville doing business under the assumed name of Langville Manufacturing Company, as principal, and Massachusetts Bonding and Insurance Company a Boston Corporation of Boston, Massachusetts, as sureties, are held and firmly bound unto Aluminum Lock Shingle Corporation of America in the full and just sum of Two Hundred Fifty Dollars (\$250.00) to be paid to the said Aluminum Lock Shingle Corporation of America attorneys, executors, administrators, or assigns; to which payment, well and truly to be made, we bind ourselves, our heirs, executors,

and administrators, jointly and severally, firmly by these presents. Sealed with our seals and dated this 16th day of November in the year of our Lord one thousand nine hundred and fifty-five.

Whereas, lately and at a session of the District Court of the United States for the District of Oregon, in a suit pending in said Court between Aluminum Lock Shingle Corporation of America and Harry X. Bergman, Perma-Lox Aluminum Shingle Corporation, and Victor H. Langville doing business under the assumed name of Langville Manufacturing Company, Civil No. 7084, a judgment was rendered against Harry X. Bergman, Perma-Lox Aluminum Shingle Corporation, and Victor H. Langville doing business under the assumed name of Langville Manufacturing Company and the said Harry X. Bergman, Perma-Lox Aluminum Shingle Corporation, and Victor H. Langville doing business under the assumed name of Langville Manufacturing Company having filed in the Clerk's Office of the said District Court Notice of Appeal to the United States Circuit Court of Appeals, for the Ninth Circuit, to reverse the judgment of the aforesaid suit, in the United States Circuit Court of Appeals for the Ninth Circuit, to be holden at San Francisco within forty (40) days from the date hereof.

Now, the condition of the above obligation is such, that if the said Harry X. Bergman, Perma-Lox Shingle Corporation, and Victor H. Langville, doing business under the assumed name of Langville Manufacturing Company shall pay the costs if the appeal is dismissed or the judgment affirmed, or

pay such costs as the appellate court may award if the judgment is modified then the above obligation to be void; otherwise to remain in full force and virtue.

HARRY X. BERGMAN,

[Seal] PERMA-LOX ALUMINUM
SHINGLE CORPORATION,

/s/ By HARRY X. BERGMAN.

LANGVILLE MANUFACTURING
COMPANY,

/s/ By V. H. LANGVILLE.

[Seal] MASSACHUSETTS BONDING
AND INSURANCE COMPANY,
Surety

/s/ By J. F. LAMBE, JR.,
Attorney-in-Fact

Countersigned:

/s/ M. H. ROSENCRANTZ,
Resident Agent

[Endorsed]: Filed November 21, 1955.

[Title of District Court and Cause.]

STIPULATION

It Is Hereby Stipulated and Agreed, subject to the approval of the Court, by and between the above-named parties, through their respective attorneys of record, as follows:

All of the original exhibits, both documentary

and otherwise, introduced and received in evidence upon trial of the above-entitled action for patent infringement shall be transmitted to the United States Court of Appeals for the Ninth Circuit as part of the transcript of record on appeal from the decree of this Court entered on the 26th day of September, 1955, to the said Court of Appeals; and it is further

Stipulated and Agreed that the Clerk of this Court may withdraw and deliver respectively to the attorneys for plaintiff and defendants for packing and transmittal to the Clerk of the United States Court of Appeals for the Ninth Circuit all the original exhibits, documentary and otherwise.

November 10, 1955.

/s/ S. J. BISCHOFF,

Attorney for Plaintiff

/s/ ROBERT F. MAGUIRE,

/s/ J. PIERRE KOLISCH,

Of Attorneys for Defendants

[Endorsed]: Filed November 29, 1955.

[Title of District Court and Cause.]

CERTIFICATE OF CLERK

United States of America,
District of Oregon—ss.

I, R. DeMott, Clerk of the United States District Court for the District of Oregon, do hereby certify that the foregoing documents consisting of Com-

plaint; Answer and Counterclaims by Harry X. Bergman, et al.; Answer by Victor H. Langville, etc.; Ruling of Judge McColloch dated November 17, 1953; Amendment to answer of defendant Bergman, et al.; Plaintiff's reply; Stipulation deferring action on certain proceedings before the court; Order re stipulation of February 18, 1954; Pre-trial order; Findings of fact and conclusions of law; Decree; Notice of appeal; Designation of record on appeal; Bond on appeal; Stipulation re forwarding exhibits to court of appeals (Order not yet signed); and Transcript of docket entries constitute the record on appeal from a judgment of said court in a cause therein numbered Civil 7084, in which Harry X. Bergman, Perma-Lox Aluminum Shingle Corporation, and Victor H. Langville doing business under the assumed name of Langville Manufacturing Company are the defendants and appellants and Aluminum Lock Shingle Corporation of America is the plaintiff and appellee; that the said record has been prepared by me in accordance with the designation of contents of record on appeal filed by the appellant, and in accordance with the rules of this court.

I further certify that there is enclosed herewith the reporter's transcript of proceedings, March 25, 26, 30 and 31, 1954. The attorneys for the appellants and appellee will forward the exhibits by express at a later date.

I further certify that the cost of filing the notice of appeal, \$5.00 has been paid by the appellants.

In Testimony Whereof I have hereunto set my

hand and affixed the seal of said court in Portland, in said District, this 1st day of December, 1955.

[Seal]

R. DeMOTT, Clerk

/s/ By F. L. BUCK, Chief Deputy

In the United States District Court,
District of Oregon

Civil No. 7084

ALUMINUM LOCK SHINGLE CORPORATION
OF AMERICA, Plaintiff,

vs.

HARRY X. BERGMAN, et al., Defendants.

TRANSCRIPT OF PROCEEDINGS

Portland, Oregon, March 25, 1954

Before: Honorable James Alger Fee, Chief Judge.

Appearances: Messrs. H. H. Brown and S. J. Bischoff, of Attorneys for Plaintiff; Mr. J. Pierre Kolisch, of Attorneys for Defendants Harry X. Bergman and Perma-Lox Aluminum Shingle Corporation; Mr. B. G. Skulason, Attorney for Defendant Victor H. Langville, doing business under the assumed name of Langville Manufacturing Company [1*]

The Court: Are you ready for trial, Gentlemen?

Mr. Bischoff: Yes, your Honor.

* Page numbers appearing at top of page of original Reporter's Transcript of Record.

The Court: The pre-trial order as tendered and agreed to by the parties and that the attorneys have signed is now signed and entered by the Court. I include in that these two orders based on the stipulation as part of the pre-trial order.

Mr. Brown: Your Honor, I would like to ask the Court as to whether he would like to have me make an opening statement so as to give the chronological order of the various events to which these witnesses will testify, perhaps in a detached manner. I think it might be helpful to the Court.

The Court: That is part of the trial. I suggest, Counsel, that you do whatever you want to.

Mr. Brown: Thank you, your Honor.

Your Honor, Louis J. Korter, the plaintiff patentee in this case, when he was around 16 to 20 years old was a sheetmetal worker, highly skilled in that particular trade. He knew all about roofs, of course, how they had to be built, and he knew of course all the problems connected with sheetmetal work.

In 1947, in the spring, Mr. Korter became interested in aluminum shingles. At that time aluminum, of course, was becoming more plentiful. He came up with an invention, your [2] Honor, in March of 1947 of a flat aluminum shingle in which the problem of leakage between the shingles and also the water condensation that inevitably collects underneath the shingle had been solved.

This shingle he made, of course, by hand at the start. In the summer of 1947 he had a sketch made showing this shingle. He began using these shingles

and putting them on roofs, and then in the fall of 1947 he approached a patent attorney, Mr. Birkenbeuel, to patent this particular shingle.

Actually, your Honor, it was a flat sheet of metal having interlocking flanges around the various edges. The flanges would be bent in one direction at the top, in another direction at the side, and then reversed again at the bottom and then in the original direction at the side so that these shingles, your Honor, would interlock.

Actually, Mr. Korter invented two types of interlocks at that time. He made what might be termed a V-shaped lock like that (illustrating), and another one was what may be termed the S-shaped lock. Actually, when these shingles were put together, your Honor, they made a very tight continuous surface on a roof that was leakproof and actually did get rid of the water condensation on the inner side of the shingle.

Now, this water condensation, your Honor—you will hear that term mentioned a great deal—means the water [3] that is expelled out of a body of air when that air is reduced in temperature to the dew point, and the water comes out and of course it clings to the inner side of the shingle. Unless that water were disposed of, your Honor, it would drop in big droplets, probably, to the rafters below and onto the ceiling over a period of time.

So Mr. Korter took this shingle and, incidentally, his sketch to Mr. Birkenbeuel and asked Mr. Birkenbeuel to prepare a patent application on this new shingle, which he felt was quite an achieve-

ment. An application was prepared, your Honor, but for some reason or other this scrolled or this curved S-interlock apparently was not included in that application, although it had been included in the sketch that was shown to Mr. Birkenbeuel.

That application was prosecuted right along by the patent attorney, your Honor, and in the meantime, of course, Mr. Korter was going along and putting these shingles on roofs, and doing quite well at it.

In the summer of 1948 Mr. Korter and his corporation was chosen to put an aluminum shingle roof on the Blanding Dream House right here in Portland. Perhaps your Honor may have seen it. As far as I know, your Honor, that shingle has worked satisfactorily.

Now, in order to get rid of this water condensation and get it past this interlock Mr. Korter put some ridges down [4] the shingle, and those ridges extended down from the inner surface in order to space this inner surface, your Honor, from the upper surface of this scroll of the next adjacent shingle. You see, that left a little space for this water to run and, you might say, bleed down through this very tight joint. And then in this scroll down the lower part of it Mr. Korter provided a gutter. Actually, that gutter was a little deeper, your Honor, so as this water condensation came down through the interlock into the gutter it would fan out both ways. At the end of this gutter, at both ends, your Honor, he had a little bleed opening so that the water would go through these

openings onto the outside part of the shingle below, and in that way it would be gotten onto the roof just like rainwater.

As improvements like this go along, your Honor, there is always a few changes. Mr. Korter found as he went along, particularly when he started to expand and put these roofs pretty well all over the state, that once in a while there was dirt collected in these little bleed openings that I mentioned. That happened only once in a while. In general they were quite satisfactory, your Honor. So when Mr. Korter wanted to make a 100 per cent shingle in the sense that it would work anywhere in the country, so he devised a drain slot, a drain slot that was so protected that this dust which would be liquified or mulsified, you might say, by the water [5] condensation could not get out of the drain slot at all.

Around the very end of 1948 was when he had that particular idea, your Honor. In the early part of January, 1949, perhaps the middle part, when he found that these shingles with this protected drain slot experimentally would work perfectly, he asked his die-maker, Mr. Siverson, to change the die slightly to include this drain slot I mentioned. Mr. Siverson concluded his work on the die on January 28th, 1949. Shortly thereafter, your Honor, these shingles went out into commercial use from the die made by Mr. Siverson with this drain slot.

Then around the end of 1949, your Honor, feeling that this shingle was in very fine condition, perfect, he again approached his patent attorney, Mr.

Birkenbeuel, to file an application on that. The other application which Mr. Birkenbeuel filed on September 25th, 1947, with these bleed openings that I mentioned, your Honor, was still pending in the patent office. So all of the features that had been contained in the original application, your Honor, including these ridges I have mentioned which spaced the inner surface of the shingle from the scroll, also these channels and the gutter and the drain opening, you see, were all included in this second application. So that there was a great deal in common between the first and second application, your Honor. [6]

Mr. Birkenbeuel, of course, prosecuted the two applications for a while, and then Mr. Korter, finding that practically all of the essential features of the shingle were perfected to be operated or used under any or all circumstances, decided that there was no further need, your Honor, to prosecute the first application any further, so he instructed Mr. Birkenbeuel and the firm of Toulmin & Toulmin not to do any further work on the first application, but he would prosecute the novelty in the shingle which included many of the essentials that were in the first application in the second application, which he did, your Honor.

That came out as a patent on March 17th, 1953. It is that patent that is in issue today. The first paragraph says that:

“This invention relates generally to shingles and particularly to aluminum shingles as set forth in detail in my co-pending application, Serial No. 776,-

332, filed September 26, 1947, over which the shingle shown herein is an improvement.”

That was the improvement, your Honor, putting this drain slot I mentioned in place of the bleeder openings. And all other features in combination of this particular patent were included in this first application.

Mr. Korter, of course, had phenomenal success with his shingle, and had put that shingle on many homes in and [7] around Portland; in fact, in many states, beginning with 1950 or even earlier, your Honor; and in the summer of 1950 one of the defendants, Mr. Bergman, approached Mr. Korter and asked him if he would put an aluminum shingle roof on his house. Mr. Bergman at that time, your Honor, was the manager of dress shops, as I understand, here in the City of Portland. I don't don't how much experience before he had had, but anyway he was in the dress shop business at that time, and apparently knew very little, if anything, about aluminum shingles or aluminum roofs.

Mr. Korter did put that roof on Mr. Bergman's home, your Honor, in July, 1950. As far as I know, that shingle is still doing good work. That shingle has this drain slot I mentioned.

As I have stated, Mr. Korter and his company, the Aluminum Lock Shingle Corporation of America, have shingled thousands of homes, putting them all over the western part of this country, your Honor. And of course Mr. Korter laid his success not only to the fact that he has this drain slot in his shingle but also to the other elements of the

combination which have been recited in the Korter patent.

Mr. Bergman, apparently, having found the shingle worked all right, got interested in aluminum shingles. It was in July, 1952, your Honor, that Mr. Bergman incorporated under the name of the Perma-Lox Company, and he got the Langville [8] Manufacturing Company to make a shingle which we believe infringes the single claim of the Korter patent.

We filed our bill of complaint on behalf of Mr. Korter and his company around the middle of last year, as the competition was getting very intense, and we felt that the claim of the Korter patent covered exactly the shingle that Mr. Bergman was putting out with the help of the Langville Manufacturing Company to the trade.

That is the end of my opening statement, your Honor, and at this time I would like to put on my first witness, if it pleases the Court.

The Court: Do you want to make a statement?

Mr. Kolisch: I would like to make an opening statement, if you would like to hear it at this time.

The Court: All right.

Mr. Kolisch: May it please the Court, I think this case could very well be summed up as much ado about nothing. The nothing in this case happens to be a hole or a slot.

As Mr. Brown explained to the Court, Mr. Korter's patent has to do with a drain slot. Now Mr. Brown went into some detail in telling your Honor about the application which Mr. Korter filed in the

patent office in 1947. We have put the file wrapper of that application in. It is an abandoned application. It was an application on the identical shingle which we have before us now with one exception. It did not [9] have a drain slot in the gutter which permitted some excess water or water condensation, or whatever it is you are going to hear about, to drain.

This application was in the patent office beginning in 1947 and was continually rejected by the patent office. The examiner cited one patent, a Crawford patent, in 1896, which showed interlocking shingles, just exactly the way Mr. Korter thought he had invented them. Mr. Korter, as is quite clear from the file wrapper, thought that he had invented an interlocking metal shingle. He thought he was the first person who ever had an idea that you could take shingles and turn their edges reversely and work them together this way. As it turned out, many people had done it before him. The patent office cited these references.

Mr. Korter could not get any place with the patent office with that application. He tried and he tried, and he was finally rejected. Then he decided he would take an appeal, and he did take an appeal to the Board of Appeals, and the Board of Appeals wrote an opinion which is in the file wrapper in which they rejected the Korter application based on this Crawford reference as showing exactly the same invention.

In the meantime Mr. Korter's business had developed, and it seemed like a good thing from a

business point of view to have a patent, something that could overcome competitors [10] and which would have a great amount of sales appeal. Therefore, it was decided, "We must find something to patent."

Mr. Korter then had the great invention of putting a slot in the gutter, a little hole which would permit water to run out. As Mr. Brown said, the problem of condensation and letting water run out had been solved in the earlier Korter application by means of little bleeding holes at the corners so that any water that did form there could run out. But Mr. Korter had this great inventive concept of placing another hole in this gutter, and he did that and he filed a patent application on it.

That was prosecuted before the patent office rather vigorously, and it had a rough time, until finally, after a series of long personal interviews with the examiner, he was successful in convincing the examiner that there was something there, and a long specification-type claim which I will go over with you briefly was finally allowed.

It is clear, if you compare the prior abandoned Korter application with the issued patent, that the only thing he got his patent on was a hole in a gutter. The history of the Korter application in the patent office, as I said, was rather a rough one, and the file wrapper shows all the material. Part of the ammunition which Korter successfully used on the patent office was an avalanche of commercial success material. There were all sorts of testimonials and [11] affidavits from people who said, "This is

wonderful; this has revolutionized the housing business and the roofing business, and this is a great thing." Apparently the examiner finally succumbed.

It is interesting to note, though, that in the second proceeding before the patent office; that is, on the patent which is now in question, the Crawford reference was never cited by the patent office. The examiner, for some reason—it was a different examiner, as your Honor understands there are many of these examiners in each division—it was a different examiner, and he never cited the Crawford reference. He cited other references which we will place before you. However, the one reference which had knocked out the first application completely was never cited, and was never mentioned by the applicant.

Now, it is our position that this patent is invalid on its face. We don't even need prior art to show that to place a hole in a gutter to permit water to run out more freely is not a patentable invention. However, we have prior art patents which show interlocking shingles, which show drain provisions in shingles, which show all manner and means of disposing of excess water as water would be disposed of namely, by providing some sort of a hole or slot to let the water run out.

Furthermore, even if the Korter patent were valid, [12] we say we do not infringe, and for a very good reason: That is, that the accused shingle does not contain a drain slot. This is the gutter, and in the accused shingle there is no drain slot such as we have in the claim specified and pointed up in

the specification of the Korter patent. We therefore say we could not possibly infringe this patent, even if it were valid.

I would like to refer briefly to the single claim in the Korter patent, and the testimony before the Court will be simplified to the extent that we only have one claim to consider.

I will read this claim and set forth the elements:

“An aluminum shingle of rectangular shape, said shingle comprising a substantially flat sheet of metal of uniform thickness and the body of which lies substantially in the same plane,”——

Well, that is the same old flat shingle that has always existed—“corrugations in said shingle”——

We will show that corrugations have existed in shingles since they have been making shingles——

“Spaced laterally of the shingle, said corrugations forming ridges on the inner face of the shingle”——

Well, those are more ridges and curlicues——

“The lateral edges of the shingle being reversely turned on opposite faces of said shingle”——

Those are the interlocking edges——

“Providing curved outer-edge portions for interlocking the shingle with laterally adjacent shingles,”——

A curve is provided in the lateral turned edges so that they will more squarely lock one another, and we will show you, your Honor, patents which show precisely the same type of locking arrangement——

“The top and bottom edge portions of the shingle

being reversely turned on opposite faces thereof, each of said top and bottom turned-edge portions comprising a half-round portion"—

This is merely a definition of these edge portions—

“One side of which is tangent to the plane of the shingle and the other side of which terminates in a reversely curved portion, the turned bottom portion forming a gutter”—

We are now getting to the meat, so-called, of the invention; up to now we have stated all the old standard elements in every type of metallic shingle—

“Forming a gutter and the reversely curved portion thereof being engageable with a reversely curved top edge portion of a lower adjacent shingle to form a close fit therebetween, a fastening tab”— [14]

That is a little tab that is provided in the corner of the shingle to nail it to the roof—

“Integral with the shingle and extending from an upper corner of said shingle for securing the same to a roof structure”—

And now we come to the last element—

“And a drain slot disposed in the gutter of said shingle for draining water therefrom”,—

Here we have the element which Mr. Korter inserted after he had been unsuccessful in obtaining a patent on an interlocking shingle with reversely turned edges, and he finally had this idea of putting a slot in, and we now find a drain slot disposed

in the gutter of the shingle for draining water herefrom—

“Said corrugation ridges on the inner face of the shingle adapted to space said reversely turned top edge portion of the lower adjacent shingle from the inner face of said shingle so that moisture can travel along the inner face of the shingle and into said gutter.”

This is purely a functional description of what the gutter does. It permits water to run down and out.

I have prepared a trial brief, your Honor, which I would like to hand up at this time. There is included in the trial brief of memorandum of some of the applicable law. [15]

There is a very recent decision by our Court of Appeals which I think sums up all the law applicable to this situation. It is the decision in Quickset Locks vs. Hillgren, which was decided February 3rd of this year. In that decision, the Court of Appeals discusses all the pertinent Supreme Court decisions.

The Court: There is no law in patent cases. A patent case is a question of fact.

Mr. Kolisch: Pardon?

The Court: I say, there is no law in a patent case. A patent case is a question of fact.

Mr. Kolisch: The Court of Appeals discusses that, also, the questions of fact and questions of law.

The Court: It is only a question of fact. That

is all there is, a question of fact. I don't care what the Circuit Court said about it, anyway.

Mr. Kolisch: The Court points out that there are certain standards of invention, but each case of course must be considered on its own facts. But there are standards of invention which have been applied, and against those standards of invention the patent in suit must be considered.

The Court: I don't agree with it. I don't think there is anything in that at all. It is a question of fact whether there is an invention or not. That is all there is to it.

Mr. Bischoff: Your Honor, may I be permitted to make a [16] brief observation?

The Court: Yes.

Mr. Bischoff: This patent in its final form, as was pointed out, contains one claim, but it is a combination claim consisting of a number of new elements in combination with some elements known to the prior art designed to produce a new invention, a new result, over and above the individual claims appearing in one or another of the prior art patents.

The application upon which this patent was filed, as we will contend, is to be read in connection with the former application and as a continuation of it, and it so recites in the patent, as was read to your Honor by Mr. Brown.

Now, the patent cites almost all of the prior art patents that are relied on by the defendants in this case to show anticipation except the Crawford patent and the two Lewando patents. But the Craw-

ford patent is in the case. It was discussed a great deal in the first application, and since the two will have to be read together that Crawford patent must be deemed as having been considered by the patent office, and the patent in its final form issued over all of the patents cited in the patent itself, including the Crawford patent. The only two, as I pointed out, that have not been mentioned in the file wrappers of either of the two applications and are not referred to in the patents are the two [17] Lewando patents, and the evidence on them will disclose, your Honor, that there is not the slightest resemblance to anything that we have here.

We contend here that there is a combination patent, a combination of elements, several of which are new and the result of Mr. Korter's individual inventive activities, and some of them individually appeared in one or another of the prior patents. But in combination they produce a new result, a beneficial and useful result, having novelty and all the elements necessary for a legal invention.

Now, your Honor, we have not prepared a trial memorandum because we thought that it might be preferable to do so at the conclusion of the case when the issues are crystallized. We will ask at the conclusion for the opportunity to submit such a memorandum on behalf of the plaintiff.

(Thereupon a recess was taken until 2:00 o'clock p.m. of the same day, at which time proceedings herein were resumed as follows:)

The Court: Proceed, Gentlemen.

Mr. Bischoff: May it please the Court, at this

time we desire to offer in evidence Plaintiff's Pre-Trial Exhibit No. 1, being United States Letters Patent No. 2,631,552 issued to L. J. Korter March 17, 1953.

The Court: Received.

(Copy of the Patent above referred to was thereupon received in evidence as Plaintiff's Exhibit 1.)

[See Book of Exhibits.]

Mr. Bischoff: We offer in evidence Plaintiff's Pre-Trial Exhibit 2, being four aluminum shingles made in accordance with the plaintiff's patent.

The Court: Received.

(Four aluminum shingles above referred to were thereupon received in evidence as Plaintiff's Exhibit 2, 2-A, 2-B and 2-C, respectively.)

Mr. Bischoff: I offer in evidence Plaintiff's Pre-Trial Exhibit 3, being four aluminum shingles manufactured and sold by the defendants which are claimed by plaintiff to be infringements.

(Four aluminum shingles above referred to were thereupon received in evidence as Plaintiff's Exhibits 3, 3-A, 3-B and [19] 3-C, respectively.)

Mr. Bischoff: I offer in evidence the deposition of Harry X. Bergman, marked Plaintiff's Pre-Trial Exhibit 4, taken February 10, 1954.

The Court: Admitted.

(The deposition of Harry X. Bergman above referred to was thereupon received in evidence as Plaintiff's Exhibit 4.)

Mr. Bischoff: I offer in evidence Plaintiff's Pre-

Trial Exhibit No. 12, being Plaintiff's Interrogatories to Defendants and the Answers thereto.

The Court: Admitted.

(The Interrogatories and Answers thereto above referred to were thereupon received in evidence as Plaintiff's Exhibits 12 and 12-A, respectively.)

Mr. Bischoff: I offer in evidence Plaintiff's Pre-Trial Exhibit 13, being a section of roof made with plaintiff's shingles, being the section that now appears on the easel in front of your Honor. And in that connection I would like to make a brief statement. The shingles are not fastened to the boards which would normally be the case when applied to a roof. They are fastened together on the back by a wire, and that was done so that the Court could see the contact of the shingles on the underside, which would be obscured if they [20] had been fastened to boards. That is the reason they are presented in this way. But otherwise we think they will present the position in which they would normally be when applied.

The Court: Admitted.

(The section of roof above referred to was thereupon received in evidence as Plaintiff's Exhibit 13.)

Mr. Bischoff: I offer in evidence Plaintiff's Pre-Trial Exhibit 14, being a roof section made with the defendants' shingles. That is made subject to the same explanation, your Honor.

Mr. Kolisch: No objection.

The Court: Admitted.

(The section of roof above referred to was thereupon received in evidence as Plaintiff's Exhibit 14.)

Mr. Bischoff: I offer in evidence Plaintiff's Pre-Trial Exhibit 17, copy of a drawing or design for interlocking metal shingles.

Mr. Kolisch: No objection.

The Court: Admitted.

(The drawing referred to, entitled "Design for Interlocking Metal Shingle, Applicable to New or Old Roofs," was thereupon received [21] in evidence as Plaintiff's Exhibit 17.)

Mr. Bischoff: May I make an inquiry of Counsel for a moment, your Honor, before I proceed to the next one?

Would you have any objection if I offered at this time these documents that have been identified without prior proof?

Mr. Kolisch: No, I have no objection.

Mr. Bischoff: In that case we offer in evidence Plaintiff's Pre-Trial Exhibits 5, 6, 7, 8 and 9, which are diagrams prepared and are reproductions of the diagrams appearing on the patent and the claims as recited in the patent, but with indicating lines relating the description to the diagrams for the better convenience of the Court in following the relation of the description to the diagrams.

The Court: Admitted.

(The diagram referred to, headed "Principle of Korter's Invention," was thereupon received in evidence as Plaintiff's Exhibit 5; the diagram referred to, headed "Elements of Korter's

Claim," was thereupon received in evidence as Plaintiff's Exhibit 6; the diagram referred to, headed "Comparison Between Korter and Bergman," was thereupon received in evidence as Plaintiff's Exhibit 7, the diagram referred [22] to, headed "Crawford Lacks the Following Elements of Korter's Claim," was thereupon received in evidence as Plaintiff's Exhibit 8; and the diagram referred to, headed "Miller Lacks the Following Elements of Korter's Claim," was received in evidence as Plaintiff's Exhibit 9.)

Mr. Brown: At this time we will call Max Richardson as our first witness, your Honor.

MAX C. RICHARDSON

was produced as a witness in behalf of the Plaintiff and, having been first duly sworn, was examined and testified as follows:

Direct Examination

By Mr. Brown:

Q. Will you please state your full name and your residence.

A. Max C. Richardson, 3946 Northeast 32nd Avenue, Portland, Oregon.

Q. What is your present occupation, Mr Richardson?

A. I am a consulting engineer and patent agent.

Q. For how long have you had that occupation, sir?

(Testimony of Max C. Richardson.)

A. Approximately three years in my own private practice. [23]

Q. Will you explain what a patent agent is?

A. A patent agent is anyone whom the patent office has determined by examination to be qualified to practice before the United States Patent Office and who is not a lawyer.

Q. Will you please state what your qualifications are both as an engineer and also a patent agent; academic, practical experience, or otherwise.

A. It is a long story.

Q. That is all right.

A. I have four years of college training in pure science leading to the degree of Bachelor of Science and Bachelor of Arts with physics major. I have four years of combined graduate and research work leading to the degree of Electrical Engineer from Columbia University. I have worked for the General Electric Company in Schenectady, for the New York Edison Company in New York, and I started and directed the engineering laboratories of the Hoover Suction Sweeper Company at Canton, Ohio. I was electrical engineer of the Long-Bell Lumber Company's operations at Long-Bell when they built the City of Longview. I have been manager of the sales of the underground and overhead electrical equipment for the General Electric Company out of San Francisco. And since 1929 up to the time I went to work for myself I was in charge of engineering for the Iron Fireman Manufacturing Company and a consulting engineer with them. And as

(Testimony of Max C. Richardson.)

consulting engineer I was in [24] charge of their patent matters. That brings me up to date.

Q. Are you a registered engineer of the State of Oregon? A. Yes, sir.

Q. In what branches, sir?

A. Well, being a professional electrical engineer with a great deal of mechanical experience, I took the mechanical examination and am registered as a mechanical engineer in Oregon.

Q. Have you read the Korter patent, 2,631,552 and feel that you are familiar with it?

A. Yes, sir.

Mr. Brown: At this time may I ask Mr. Price if he will give the witness a copy of Plaintiff's Exhibit 1 and also Plaintiff's Exhibit 5.

The Court: Have you got extra copies of the patent and the designs for the Court?

Mr. Brown: Yes, sir; we do.

Q. Will you please tell the Court, Mr. Richardson, as to what Mr. Korter was aiming to do. What was the purpose of his invention as you have gathered it from reading the specification and the claim?

A. In reading the specification the second paragraph says, "The main object of this invention is to devise a metal shingle of the interlocking type in which provision [25] is made to prevent leakage from heavy run-off, or condensation, or both."

That would be an object and the reason for Mr. Korter's development of this shingle. And this Exhibit No. 5 schematically indicates that Mr. Korter

(Testimony of Max C. Richardson.)

was trying to do. Condensation, of course, forms always under metal roofs, and in order to get it off Mr. Korter wanted to run it down under the shingle through the joint and onto the top of the next lower shingle to run off into the gutter. That was his object and it is illustrated here.

Mr. Brown: I would like to explain to the Court that that sketch, Exhibit 5—in fact, all of these exhibits, these sketch exhibits, or chart—were prepared under my supervision. I would like to ask the witness as to whether Exhibit 5 correctly shows Mr. Korter's invention.

A. This is a schematic drawing showing the intent and actual operation of Mr. Korter's shingle.

Q. How important or otherwise is this matter of water condensation, Mr. Richardson, in connection with metal roofs? Is it important or otherwise?

A. It is exceedingly important. The type of roof is sometimes determining in what operations can be carried on in a building. I have for some 25 years been in the business with Iron Fireman of the design and installing and consulting on air conditioning and other equipment in buildings or for [26] buildings. The roof is an exceedingly important matter in heating or air conditioning a building. With some roofs you can hold an effective comfort humidity control. Others the roofs will take out moisture and damage the property so that you must keep them necessarily dry. It is of importance generally; yes, sir.

Q. Will you now refer specifically to this struc-

(Testimony of Max C. Richardson.)

ture shown in the Korter patent element by element and, in general, describe those various elements, how they cooperate together, from the specifications in getting rid of this water condensation to which you have referred.

A. It should be remembered, as I see this patent from my patent experience and engineering experience, the patent covers an improvement in shingles for a purpose, the purpose being the stated object of such invention. The claim recites not only elements of old art to make a complete shingle but specifically defines elements of improvement.

Now, as I see the elements of improvement in this patent, the first one is in aluminum shingle, which is really an improvement. This is the first one that I know of in the art. Aluminum is an exceedingly useful material from its heat-reflective and emissive and conducting qualities, and a distinct improvement in metal roofs. However, aluminum is likely from its various qualities to cause more condensation. Also, it is not possible, or has not been possible, conveniently [27] to solder aluminum in the normal course of installation. Therefore, this could not be the old type of completely solid roof. It had to be an interlocking or shingle type of house.

I therefore make the point that being the first aluminum shingle is important. He has found a way of making a successful aluminum shingle. Of the structural points of novelty which combine to make this an effective shingle to operate in the manner required by the object of the patent, I

(Testimony of Max C. Richardson.)

would pick out of this claim the elements which combine to make this novel improvement—

Q. Excuse me, sir, but before that would you kindly go back to the drawing and show to his Honor as to how these various elements read on the drawing and give a description of the functional effect of those elements.

A. That is, the whole claim?

Q. Yes, in the specification.

A. Of course, the drawing does not show that the claim is aluminum, but it is rectangular-shaped, which is easily seen from the drawing, and “comprising substantially flat sheet of metal of uniform thickness and the body of which lies substantially in the same plane.” That is easily seen from the various figures of the drawing.

The corrugations are numbered 12, and are particularly shown in Figure 2 and Figure 6—“corrugations in said [28] shingle spaced laterally of the shingle, said corrugations forming ridges on the inner face of the shingle.” That is definitely shown in Figure 6.

Then, “the lateral edges of the shingle being reversely turned on opposite faces of said shingle”—that is the lateral edges—well, 13 is typical—“providing curved outer edge portions for interlocking the shingle with laterally adjacent shingles, the top and bottom edge portions of the shingle being reversely turned on opposite faces thereof.” That is shown in the drawings. Nos. 14 and 16 are the edges turned over in Figures 1 and 2.

(Testimony of Max C. Richardson.)

Now this is important as defining the character of those top and bottom turned edges—"each of said top and bottom turned edge portions comprising a half-round portion, one side of which is tangent to the plane of the shingle and the other side of which terminates in a reversely curved portion, the turned bottom portion forming a gutter and the reversely curved portion thereof being engageable with a reversely curved top edge portion of a lower adjacent shingle to form a close fit therebetween." Now, the last quotation differentiates the top and bottom reverse turns from the prior art.

Then "a fastening tab integral with the shingle and extending from an upper corner of said shingle for securing the same to a roof structure." As far as I know, [29] this was the first shingle to have a single tab securing the shingle to the roof, requiring no other tab and with the nail penetrating only one thickness of metal. When I make that statement I realize that there are some other forms of shingles which are laid diagonally horizontally rather than laid with the bottom and top edges horizontally which might have such features, but this is a different art, as I understand it.

Then "and a drain slot disposed in the gutter of said shingle for draining water therefrom." That is a conventional requirement in the patent. That is to say, that the patent has for its object the collection of condensation moisture from the air and the collection of that in the gutter and the wasting of that onto the roof of the next shingle

(Testimony of Max C. Richardson.)

below. This "drain slot disposed in the gutter of said shingle for draining water therefrom" is a requirement or means for getting that water out of the gutter onto the next shingle below. In Mr. Korter's specific and shown requirement, as he is required by the patent office to make a distinct showing of one mode, Mr. Korter has illustrated that with his element 21. Of course, it could be any other element for that means and disposed in the gutter.

This is important now as defining again the object of the invention and the means required by the claim for accomplishing that object—"said corrugation ridges on the [30] inner face of the shingle adapted to space said reversely turned top edge portion of the lower adjacent shingle from the inner face of said shingle so that moisture can travel along the inner face of the shingle and into said gutter."

Now, attention should be called to Figure 4 and Figure 6 of the patent. In Figure 6 it is to be noted that 19 is the upper edge of a lower shingle, and that the small section above it as shown where the section is on Figure 4 is the cross-section of the lower edge of the upper shingle, showing that the corrugation 12 spaces the upper shingle from the curved top edge of the lower shingle in order that moisture hanging to the underside of the upper shingle can travel along the under shingle and into the gutter 20. That is important and, as far as I know, not found in the prior art. And the combination of that means, together with means for surely

(Testimony of Max C. Richardson.)

draining the water from the gutter onto the lower shingle, is the improved combination of Mr. Korter.

Mr. Brown: Will Mr. Price please give the witness Plaintiff's Exhibit 2.

Q. In your last answer, Mr. Richardson, you said something about the shingle passing through the gutter to the shingle below. You meant the water, did you not, just to clarify that point?

A. What did I say? I am sorry.

Q. The shingle passing through the opening to the shingle [31] below. You meant the water?

A. That is right; the water condensation.

Q. Yes. One other point, sir. You have used the term "combination" considerably. Will you kindly explain to the Court just what you mean by a combination in referring to this claim.

A. It is a term used in the Patent Act as a requirement—that is, one requirement for obtaining a patent. It means that if an improvement to be successfully operated requires more than one element it is a combination. The improvement includes that combination of elements and the elements of combination. And in this particular case the patent is an improved patent, and the improvement consists of a number of elements to accomplish the object of the invention.

Q. How do they normally accomplish that, sir? Do they cooperate with one another to give you a single result or not?

A. Yes. As the patent well illustrates, this is a species of shingle which would come under the Kor-

(Testimony of Max C. Richardson.)

ter patent. There would be others, but in this particular case we have these ribs on the back or on the underside that extend down into this gutter formed at the bottom, and these ribs space the upper end.

Q. Will you demonstrate it to the Court, please.

A. This being the upper end of the shingle and this being [32] the lower end, these ribs on the upper shingle space the upper shingle from the lower shingle so the water condensation can drain down into that gutter, the water condensation necessarily hanging to the underside of the upper shingle and running into that gutter. Then so much accomplished, the problem then is how to concentrate it and have it enter onto the roof at another point and to get it out on the top of the next shingle. So that Mr. Korter has done that by providing one form of slot, drain slot, which drains that water out of the gutter onto the next shingle near the mid-point of the next shingle so that it does not tend to run over into another seam. Mr. Korter's slot can be seen right at this point.

Mr. Brown: Will Mr. Price give the witness a copy of Plaintiff's Exhibit 6.

Q. I wish to ask you, Mr. Richardson, as to whether or not it is true that the ridges are designed to keep the shingle away from the wood sheathing underneath. Is that correct, sir?

A. Yes, sir. That is, it would be certainly an object and is successfully accomplished.

Q. Is that space where the shingle is kept away

(Testimony of Max C. Richardson.)

from the sheathing underneath is that an air space, sir? A. Yes.

Q. And does that body of air give rise under certain circumstances [33] to this water condensation to which you referred? A. Yes.

Q. Will you kindly explain that phenomenon to the Court.

A. It is difficult to say how far to go in a deal of that kind, but what happens is that there is necessarily a circulation of air under shingles on a roof at all times. That air is warmed from the house underneath, condensation being formed at such time as the roof is warmer than the shingle. As much as 30 per cent of the heat put in the average dwelling can be lost through a roof, and that amounts to a substantial amount of heat. Also, that heat forms a substantial draft underneath the shingle, causing a substantial circulation of air under the shingle. And as the air under the shingle is warmed it will pick up moisture from the wet roof, or the outside, or wherever it happens to be, and as it comes in contact with the underside of the shingle above will drop that moisture or, rather, the moisture will condense out onto the underside of the shingle above.

Mr. Brown: Your Honor, in explanation of Plaintiff's Exhibit No. 6, that was prepared under my supervision, and the material to the right of the drawing was merely to explain our view of the Korter patent.

Q. Referring now to Exhibit 6, Mr. Richardson,

(Testimony of Max C. Richardson.)
will you kindly go over the elements of Korter's claim; that is, his combination claim, and point out, following the red lines, as to what [34] element or elements in Korter's shingles are referred to by the elements of this combination claim, using reference characters wherever you can.

A. Of course, the first element, an aluminum shingle is shown of rectangular shape. The top red arrow shows a shingle, Figure 1, "said shingle comprising a substantially flat sheet of metal of uniform thickness and the body of which lies substantially in the same plane," and is shown generally as Figure 1 and Figure 2.

"Corrugations in said shingle spaced laterally of the shingle, said corrugations forming ridges on the inner face of the shingle."

That is the corrugations 12, and that is best shown in Figure 1 and Figure 6 and Figure 4, following the red lines.

"The lateral edges of the shingle being reversely turned on opposite faces of said shingle providing curved outer edge portions for interlocking the shingle with laterally adjacent shingles."

That is shown directly by the red lines to Figure 1.

"The top and bottom edge portions of the shingle being reversely turned on opposite faces thereof"

Is shown directly by two red lines, one pointing to the top of Figure 1 and one to the bottom of Figure 1.

"Each of said top and bottom turned edge [35]

(Testimony of Max C. Richardson.)

portions comprising a half-round portion, one side of which is tangent to the plane of the shingle and the other side of which terminates in a reversely curved portion.”

Now that is shown directly in Figure 4 as a cross-section, showing that No. 20 is the half-round section and that the upper surface of the shingle is tangent to that half-round section at the top, and that the lower side of the curved 20 is tangent to the reversely curved portion which extends out to 16.

“The turned bottom portion forming a gutter.”

That turned bottom portion as shown in Figure 4 and as assembled in Figure 4 forms the gutter shown.

“And the reversely curved portion thereof being engageable with a reversely curved top edge portion of a lower adjacent shingle to form a close fit therebetween.”

Now that is splendidly shown at No. 18 in Figure 4. That shows the contact tangentially of the curved ends of the upper and lower shingles, which allows that shingle to expand up and down the roof as required by temperature change without changing the tightness of the joint.

“A fastening tab integral with the shingle and extending from an upper corner of said shingle for securing the same to a roof structure.” [36]

Of course, the tab is shown as pointed out by the red lines at the upper left-hand corner of Figure 1, which shows the underside of the shingle. It

(Testimony of Max C. Richardson.)

would, of course, be the upper right-hand corner of Figure 2, which shows the face of the shingle.

“And a drain slot disposed in the gutter of said shingle for draining water therefrom.”

The particular form of drain slot that Mr. Korter has chosen as his mode of practicing his patent is shown at 21 in Figure 3.

And then the requirement at the bottom of the particular design and the assembly of the shingle utilizing corrugated ribs is defined as “said corrugation ridges on the inner face of the shingle adapted to space said reversely turned top edge portion of the lower adjacent shingle from the inner face of said shingle so that moisture can travel along the inner face of the shingle and into said gutter.” And that again is very well shown in Figures 4 and 6.

Q. Now, is there any significance, Mr. Richardson, to this Item 2, “corrugations in said shingle spaced laterally of the shingle, said corrugations forming ridges on the inner face of the shingle,” with respect either to their shape, position or size?

A. The claim can hardly be torn apart, but there is a definition for that at the last few lines of the claim, which [37] require that those corrugation ridges be adapted to space the reversely turned top edge portion of the lower adjacent shingle from the inner face of said shingle so that moisture can travel along the inner face of the shingle into the gutter. There is object, construction and definition.

Q. If those corrugations or ridges did not ex-

(Testimony of Max C. Richardson.)

tend to the lower edge of the shingle, would they perform that result that you have mentioned?

A. Very imperfectly.

Q. Is there any significance with respect to the element "each of said top and bottom turned edge portions comprising a half-round portion, one side of which is tangent to the plane of the shingle and the other side of which terminates in a reversely curved portion," with respect to the purpose for which Mr. Korter made this invention, namely, to get rid of the water condensation?

A. Yes. Taken out of this claim, the words might be indefinite, but in the claim it is quite definite that the half-round portion must be tangent to the upper surface of the shingle and it must be long enough to reach to the top surface of the lower shingle where space is shown, and therefore it ideally forms a gutter for water to drain into it.

Q. The corrugations in the shingle and also the fact that the top and bottom turned edge portions comprise a half-round portion, do those two elements cooperate together? [38]

A. Very well, yes.

Q. Leading to Mr. Korter's object for which he made his invention?

A. Yes, sir.

Q. Is there any significance to the detail or element "the turned bottom portion forming a gutter," and the manner in which that element cooperates with the other two elements that I have mentioned to effect Mr. Korter's purpose?

A. Yes. That gutter is the intermediate element.

(Testimony of Max C. Richardson.)

It is the accumulator for the moisture and the place where that moisture is collected and then drained off through a drain slot.

Q. Is there any significance or cooperation, Mr. Richardson, between the drain slot disposed in the gutter of said shingle for draining water therefrom and the other three elements which you have mentioned in so far as they effectuate the purpose of Mr. Korter's invention?

A. Yes. There would be no object—in fact, there would be a dis-object of collecting the water in one place if you couldn't get rid of it. It would be better to let it soak into the roof all over it than to localize it.

Q. If we were to eliminate any one of the four features that I have mentioned, would Mr. Korter's object be achieved to get rid of this water of condensation which collects on the inner face of the shingle? [39]

A. Not with this general type of structure. It is always possible to get rid of moisture in some way or other, but not with the shingle structure.

Q. Will you kindly explain further as to what you mean by this particular shingle structure.

A. There have been roofs of a type which really are covered roofs over an under-roof and in which air is allowed freely to circulate through between the two roofs and use the air to take off any moisture. That is, there is enough air circulates so that moisture does not condense in a damaging way on the upper roof. Of course, that can be done.

(Testimony of Max C. Richardson.)

Q. Will you kindly state, even at the sake of repetition again, exactly what you mean by the corrugations forming ridges on the inner face of the shingle, and point to whatever figure of the patent that refers to.

A. It refers to numeral 12 in Figure 6, and wherever else shown in Figure 2. Figures 2 and 6 seem to be the ones that show that.

Q. Will you tell the Court as to whether all of these elements to which you have specifically referred cooperate together to give a unitary result; in other words, to rid the inner surface of the shingle of condensation water?

A. Yes. I would say that was so.

(Short recess.) [40]

Mr. Brown: Q. Mr. Richardson, will you kindly tell the Court as to how an aluminum shingle of the Korter type as covered in this patent is applied to a roof. What is under it?

A. Well, I would say that it would depend on the roof. It could be a skeleton roof, but normally I would say it would be a wood sheathing over rafters, and either with or without a paper diaphragm between the shingle and the wood.

Q. Would this paper diaphragm that you have mentioned tend to close up the space that has been formed by these ridges or legs 12?

A. Not appreciably.

Q. So that you would also have those spaces there for draining the water of condensation, which spaces had been caused by the ridges?

(Testimony of Max C. Richardson.)

A. You would select a paper that would do that.

Q. Isn't that paper usually called roofing paper, sir, that you have in mind?

A. Yes, building paper.

Mr. Brown: Will Mr. Price please give the witness Defendants' Exhibit 28, which is a certified copy of the file wrapper of the abandoned Korter application, No. 776,332.

Mr. Kolisch: Your Honor, this has not been admitted. I would like to offer it at this time if Mr. Brown wants to use it for the purpose of examination. I offer Defendants' Exhibit 28. [41]

Mr. Brown: Thank you. No objection.

The Court: Admitted. But I am not going to receive it as an offer of the defendants. It is an offer of the plaintiff. This is the plaintiff's case.

Mr. Kolisch: I merely wanted to have it put in so that he may use it and make it available.

The Court: You can offer it in evidence. That is the only way it can be done.

Mr. Brown: Yes. I will offer this certified copy of the file wrapper of the abandoned Korter application No. 776,332, as Plaintiff's Exhibit 18.

The Court: It is received.

(The file wrapper of Korter Application No. 776,332, above referred to, having been previously marked as Defendants' Pre-Trial Exhibit 28, was thereupon received in evidence as Plaintiff's Exhibit 18.)

Mr. Brown: Q. Will you kindly refer to the drawing on that application, Mr. Richardson, and tell us what you find, if anything, in common be-

(Testimony of Max C. Richardson.)

tween the structure shown on that drawing and the structure shown on the co-pending Korter application which resulted in Patent 2,631,552. You might begin by telling us, sir, as to whether any mention is made in that application of getting rid of the water of condensation.

A. I will have to look and find out.

Q. All right.

A. The first page of the specification, Lines 26 to 29, "The sixth object is to produce an interlocking shingle in which a natural drainage is provided for condensation, thereby protecting against drip from excess condensation or injury due to freezing of condensation within the interlocking joints."

Q. Does that application show any ridges extending out from the inner face of the shingle to the lower edge of the shingle?

A. Yes. In comparing the application drawing with the patent drawing, the application being the earlier one, of which the second, the patent, is a continuation, a natural relation is seen in so far as the ridges depressed from the underside of the patent drawing are shown in the application, but of less depth, and the gutter is not as perfectly formed, showing that possibly the patentee was not aware of the dimensions necessary, but he had the idea of these things.

Q. I believe you said that a gutter was disclosed in this other application. Where is that, sir?

A. That gutter is shown in Figure 8, under the top surface 26 there, in the space marked 18. I don't know whether those are the reference num-

(Testimony of Max C. Richardson.)

bers described in the patent, but that is the way it appears on the drawing.

Q. How did that water run from the gutter onto the outside surface of the shingle below?

A. In folding shingles of this type, where the corners are not sealed, undoubtedly the applicant intended or thought that the normal cutoff of the interlocked edges would allow that drainage.

The Court: It is not a question of intention, though, exactly. Would the construction that you are talking about permit that?

A. The shingle is entirely folded from a flat sheet, and as long as there is a joint at the lower edge it necessarily must seep some water. And before dirt from the roof or from the atmosphere collects and runs into those joints and seals them off they would undoubtedly do a job of draining the seepage. But to be sure that you were going to have life and usefulness to the roof for some time, undoubtedly the applicant found that he had to provide a drain of such size that it would stay open.

Mr. Brown: Q. Have you examined the so-called Bergman shingle made by the Perma-Lox people?

A. Yes, sir.

Mr. Brown: Will you, Mr. Price, kindly hand the witness Plaintiff's Exhibit 3, four aluminum shingles and at the same time, sir, will you hand the witness Plaintiff's Exhibit 7. [44] In explanation, your Honor: This chart exhibit is not an absolute copy of anything. It is merely a schematic drawing merely to show how Korter's claim can be read on

(Testimony of Max C. Richardson.)

the left-hand side on the Korter patent and on the right-hand side on the Bergman or Perma-Lox shingle.

Q. Have you examined Plaintiff's Exhibit No. 7, Mr. Richardson? A. Yes, sir.

Q. Is it accurate in detail, sir?

A. I would believe so.

Q. Will you state, sir, what it purports to show.

A. Down the center are seven numbered paragraphs indicating the elements of the Korter claim—or not exactly that, either, but both features of the claim and elements of the shingles in use. On the left-hand side in perspective is a fragmental view of a roof made with—is it the Exhibit 1 shingle? Is that the one that is here?

Mr. Bischoff: That is Exhibit 2, Mr. Richardson.

A. Exhibit 2. And on the right at the top is a perspective of a fragmental roof of the Exhibit 3 shingle. And below on the left-hand side is a fragmental perspective of a union of a horizontal and vertical joint showing fragments of three shingles and showing the interlocking arrangement and the schematic way in which the water passes through, draining from the underside of the upper shingle to the outside of the lower shingle—to the upper side of the lower shingle. And at the lower right-hand side is a similar fragmental perspective drawing of the corner of three shingles interlocked, and with a schematic showing of the water traveling from the underneath of the upper shingle to the top of the lower shingle.

(Testimony of Max C. Richardson.)

Mr. Brown: Q. How is that water condensation shown in this schematic drawing?

A. The water condensation is indicated as red dotted approximate circles, and the travel where it is indicated to be under the shingle is shown with dotted arrows, and the travel after it has passed into view is shown in the solid arrows.

Q. What do these red lines indicate, Mr. Richardson, with the arrows on the end?

A. The arrows on the drawings under "Figure 1. Corrugations forming ridges on inner face of the shingle," they undoubtedly are intended to point to the corrugation 12 of the patent and showing the ridges on the underside. The actual points of the arrows do not always coincide with what they are directed at on the drawing. And on the right-hand side undoubtedly it is intended to show the same corrugation 12 as in the Exhibit 2 species of the Korter patent or shingle.

Q. So that seven elements or features have been shown in the middle column, and each one of those features has been illustrated on this diagram in such a way that each feature can be read both on the Korter patent and also on the Bergman or Perma-Lox shingle; is that correct, sir?

A. I would say so, but it is difficult reading.

Q. Now, will you take one of the Bergman shingles, Plaintiff's Exhibit 3, and show to the Court as to how the Korter claim reads on that shingle there, sir, element for element.

A. Your Honor, "An aluminum shingle of rect-

(Testimony of Max C. Richardson.)

angular shape, said shingle comprising a substantially flat sheet of metal of uniform thickness and the body of which lies substantially in the same plane," the body being the part in between the interlocking edges.

"Corrugations in said shingle"—this is the underside of the shingle, and this is the top side of the shingle. "Corrugations in said shingle spaced laterally of the shingle, said corrugations forming ridges on the inner face of the shingle, the lateral edges of the shingle being reversely turned"—one turned up and the other turned down—"on opposite faces of said shingle providing curved outer edge portions"—these curved outer edge portions—"for interlocking the shingle with laterally adjacent shingles"—(illustrating) I have got them upside down, but they interlock—"the top and bottom edge portions of the shingle being reversely turned on opposite faces thereof"—the top and bottom being reversely turned—"each of said top and bottom turned edge portions comprising a half-round portion, one side of which is tangent to the plane of the shingle and the other side of which terminates in a reversely curved portion"—this is the reversely curved portion—"the turned bottom portion forming a gutter, and the reversely curved portion thereof being engageable with a reversely curved top edge portion of a lower adjacent shingle to form a close fit there between, a fastening tab integral with the shingle and extending from an upper corner of said shingle for securing the same to a

(Testimony of Max C. Richardson.)

roof structure, and a drain slot disposed in the gutter of said shingle for draining water therefrom."

Now that drain slot can be seen right through there. This is the cutoff end of this thing, and the whole thing has been enlarged to open up and make adequate drainage at all times.

"Said corrugation ridges on the inner face of the shingle adapted to space said reversely turned top edge portion of the lower adjacent shingle from the inner face of said shingle so that moisture can travel along the inner face of the shingle and into said gutter."

That, I believe, is a demonstration of this particular species of the Korter patent shingle.

Q. Do those ridges that you see projecting downwardly from the inner surface of the shingle form spaces through which the water condensation can flow around the upper surface of the scroll of the lower shingle, sir? [48]

A. You are asking about these ridges?

Q. Yes, sir.

A. Do they space the lower shingle?

Q. Yes. A. Yes, they do.

Q. Mr. Richardson, would it be possible at all, sir, to take one of Mr. Bergman's shingles and put it among two or three of Mr. Korter's shingles and have it perform the same result or not?

A. Except for a slight change in the over-all dimensions. They will interlock until you get—here are two of the Korter shingles, and there is a Berg-

(Testimony of Max C. Richardson.)

man shingle that interlocks and will do the same thing. However, as you travel along the roof you gradually run out this spacing this way, and they would not be measured side by side because this is slightly narrower this way than this is.

Q. Will you show the Court where on Mr. Bergman's shingle there is this drain slot disposed in the gutter of the shingle for draining water therefrom?

A. Yes, sir. It is right here (indicating).

Q. How does that slot compare with any other slot that is shown on Mr. Korter's shingle? Is it narrower or wider, or just how is it?

A. Well, it is obviously wider here. The normal way of making these interlock would be to just clip the corner and fold this rather closely at the corner. But in order to provide a definite drain slot this flat sheet has been clipped off enough to make this corner space here cut the corner off the shingle before they fold it.

Mr. Brown: At this time, with the Court's permission, we would like to put on a demonstration of both the Korter and the Bergman shingle, sir, on the frame that we have over here, to show that each of those shingles perform the same result or obtain the same result in substantially the same manner. We would like to have permission of the Court to put on that demonstration. It will require the use of just a little water, your Honor, but we have some tarpaulin we will put down on the floor.

The Court: You won't flood the courtroom?

Mr. Brown: No, sir; I'm sure not.

(Testimony of Max C. Richardson.)

The Court: Yes.

Mr. Brown: Thank you.

The Witness: Before we put this down, your Honor, this roof would normally have sufficient wood structure to nail through these tabs, and if we would do that you could not see the back side of it. This has just been wired across to support the tabs so you can see the back side and the water action on it.

Now what we are going to do is to simulate the formation of condensation on the back side of the roof and [50] show you how it comes out on the front side. Of course, we hope it will. It takes a little time. In order to make a mist that is small enough so it won't run off and will just collect on the thing it takes a little time to fill those gutters.

The Court: Counsel and any of the parties may come up and watch this if they want to.

Mr. Brown: Q. Mr. Richardson, what are you doing at the present time, sir?

A. I am using a fine garden spray to simulate the mist-laden air that you normally find under a cool shingle on a hot roof.

Q. You are applying that to the Korter shingles, are you not?

A. I am applying that to the underside from a distance of approximately 18 inches to the Korter shingle, the one shown in Exhibit 2.

I see we are not putting enough water on there to cause any particular commotion on the back side,

(Testimony of Max C. Richardson.)

and the water is beginning to run down the underside.

Q. Will you kindly come on this side of the roof, sir, and tell the Court what you find.

A. As described in the patent as the purpose of the invention, the water on the underside has run down the shingle, this shingle being spaced from the other one by the ends of [51] these on the side of the lower roll, and the water has gone into this gutter along here and has come out through the slot right there—you can see it, perhaps. Here is one where I can see the water—I wasn't watching it from this side, but here is one where I can see where the water is coming off. Here is one where I can see the water was coming off. Those are right at those particular points where the patentee has seen fit to provide his drain slot. You see, there has been no water drop on the floor from the back side. Possibly there was a drop. That water has come through to the front side and has come out those drain slots and come down on the roof, and the back side of the roof is all wet.

Q. Will you kindly perform the same demonstration with respect to Mr. Bergman's shingles?

A. I will be glad to.

The Court: Anybody that wants to go back there, I have no feeling about that, but I don't want anybody to ask the witness any questions.

(The witness performed a similar demonstration with the Bergman shingles.)

Mr. Brown: Q. Will you come to the front side

(Testimony of Max C. Richardson.)

of this roof section and state whether or not you find any water coming out that had been initially applied to the inner surface of the roof. [52]

A. Yes, right here. I just saw it come out right at the cutoff end there, where the shingle has been clipped. The water has traveled out there and freely down there. Here is another one. I don't see any water over there, but these two are definite demonstrations, and the only places where water came through.

Q. Will you kindly resume the stand. Mr. Richardson, these two demonstrations that you have performed in connection with Plaintiff's Exhibits 13 and 14, will you tell the Court what they show.

A. As we went over previously, the object of this invention was to take condensed moisture from the underside of an upper shingle, drain it into the gutter in turn at the lower end of the shingle, and drain it out onto the top side of the next lower shingle. The specifications show the structure, and to attain that object the claims define the structure. Both of these demonstrations have been on species of shingles on which the claim reads, and the object of the invention has been attained in both cases.

Q. By way of summation of your testimony in regard to infringement, will you kindly state whether or not in the Bergman shingle you find an aluminum shingle of rectangular shape?

A. Yes, sir.

Q. Do you find that?

A. Yes, sir. [53]

Q. Said shingle comprising a substantially flat sheet of metal of uniform thickness and the body

(Testimony of Max C. Richardson.)

of which lies substantially in the same plane. Do you find that? A. Yes, sir.

Q. Corrugations in said shingle spaced laterally of the shingle? A. Yes, sir.

Q. Said corrugations forming ridges on the inner face of the shingle? A. Yes, sir.

Q. The lateral edges of the shingle being reversely turned on opposite faces of said shingle providing curved outer edge portions for interlocking the shingle with laterally adjacent shingles?

A. Yes, sir.

Q. Do you find the top and bottom edge portions of the shingle being reversely turned on opposite faces thereof? A. Yes, sir.

Q. Each of said top and bottom turned edge portions comprising a half-round portion?

A. Yes, sir.

Q. One side of which is tangent to the plane of the shingle and the other side of which terminates in a reversely curved portion?

A. Yes, sir. [54]

Q. The turned bottom portion forming a gutter and the reversely curved portion thereof being engageable with a reversely curved top edge portion of a lower adjacent shingle to form a close fit there between? A. Yes, sir.

Q. A fastening tab integral with the shingle and extending from an upper corner of said shingle for securing the same to a roof structure?

A. Yes, sir.

Q. And a drain slot disposed in the gutter of said shingle for draining water therefrom?

(Testimony of Max C. Richardson.)

A. Yes, sir.

Q. Said corrugation ridges on the inner face of the shingle adapted to space said reversely turned top edge portion of the lower adjacent shingle from the inner face of said shingle so that moisture can travel along the inner face of the shingle and into said gutter? A. Yes, sir.

Q. Now, Mr. Richardson, do you find that this combination of elements which cooperate together are also found in the Perma-Lox or the Bergman shingle? A. Yes, sir.

Q. And do you find that the functions of these elements in the Bergman shingle cooperate to get rid of this water condensation in substantially the same manner as the similar [55] elements of the Korter shingle or the Korter patent?

A. I would say that they were substantially so, yes.

Mr. Brown: That is all.

The Court: The Court will be in adjournment until tomorrow morning at 10:00 o'clock.

(Thereupon an adjournment was taken in the above matter until Friday, March 26, 1954.)

Portland, Oregon, Friday March 26, 1954,
Court reconvened, pursuant to adjournment, and proceedings herein were resumed as follows:

MAX C. RICHARDSON

a witness produced in behalf of the Plaintiff, resumed the stand and was further examined and testified as follows:

(Testimony of Max C. Richardson.)

Cross Examination

By Mr. Kolisch:

Q. Mr. Richardson, did you do any of the patent work concerned with either of the Korter applications?
A. No, sir.

Q. At one time you were connected professionally with Mr. Birkenbeuel, weren't you?

A. You mean by association?

Q. Yes. A. No.

Q. You never did any work for Mr. Korter on the patents?
A. No.

Q. Or air conditioning or any other engineering work?
A. No.

Q. Now, what practical experience have you had with aluminum shingle roofs, Mr. Richardson?

A. You mean did I ever put one on?

Q. Did you ever see one put on, or did you ever put one on [57] yourself?

A. I never put one on myself, but only in passing interest. I never have made it a point or been hired to supervise, or anything of that kind.

Q. You have never had anything to do with aluminum roofs prior to this case, I take it?

A. That is right.

Q. Will you explain to the Court briefly how, if you know, a roof is put on, new construction?

A. On what type of new construction?

Q. You can take any type you wish. It doesn't make any difference.

A. Just by hearsay or what?

Q. As you understand it.

(Testimony of Max C. Richardson.)

A. As I understand it. A typical example would be a building having a hip roof with rafters and covered with wood sheathing, and over the wood sheathing would be some sort of felt paper, whichever kind or type you wanted.

Q. How is that felt paper applied?

A. It would ordinarily be applied in horizontal rows and overlapped at the upper edges and nailed.

Q. Is the felt paper laid on in rolls?

A. That would be my supposition. Now I am telling you that I never have watched that done.

Q. I just want to know what your understanding is. [58]

A. That is right.

Q. Let's say that the pitch of the roof is such as was shown on the easel there, which way would that felt be applied over the sheathing? Would it be running longitudinally or vertically?

A. It would be largely in accordance with the particular structure. It could be put on in squares or put on from rolls or it could be put on over the top horizontally. It wouldn't make too much difference.

Q. Is it your testimony, then, that the felt paper could be laid either vertically or horizontally across the sheathing?

A. Yes, and in almost any sized pieces.

Q. Now, are those separate sections of felt abutted or are they overlapped?

A. If I were doing it, I would overlap them. That is my opinion.

Q. Why would you overlap them?

(Testimony of Max C. Richardson.)

A. To take advantage of any possible leakage through the joints of air or moisture or any other thing and be sure that I had the roof covered.

Q. Is that felt paper, then, nailed to the sheathing?
A. I would nail it to the sheathing.

Q. Then what would happen?

A. I would ordinarily—that is, if it were me, I would go ahead and start the lower nailing strip, whatever you want [59] to call it, the angle strip that you put at the bottom of the roof.

Q. The starter strip?

A. That is right. Then I would go ahead and lay the roof. And I believe these shingles would lay from the lower lefthand corner, if I remember correctly. It depends on which way the shingles are made, to lay from the lower left or lower right, and proceed up the roof with them.

Q. Are you familiar with some of the other accessories that are used in roof construction?

A. Generally.

Q. Are you familiar with a valley? Do you know what I mean by a valley?

A. I know what a valley in a roof is; yes, sir.

Q. Do all roofs have valleys in them?

A. No.

Q. Do many roofs have valleys?

A. Most of them do. You could call the side of a chimney a valley, if you wanted to.

Q. I take it there are also chimney and vent jacks, and any other thing that comes through the

(Testimony of Max C. Richardson.)

roof you have to provide some sort of an accessory?

A. I will assume that with you.

Q. That is true, I suppose, of hip and ridge caps, also?

A. The ridges could be made in various ways.

Q. Do you know with respect to the patented shingle how, for instance, a valley is tied in with the rest of the shingles?

A. I would not like to say definitely. I have seen them, but I have not examined them closely.

Q. Have you examined these valleys sufficiently closely to know whether they contain any drain holes or provision for drainage?

A. I have not examined them that closely, no. I wouldn't say.

Q. You don't know whether or not there is any provision for drainage under the valleys?

A. I wouldn't know, no.

Q. Do you know approximately how much air space there is between the felt and the backs of the shingles? A. No, I wouldn't know.

Q. Is it of the order of an inch, an eighth of an inch, or two inches? Do you have any idea?

A. Well, I would say it would be less than two inches.

Q. Now, the condensation that you were discussing yesterday, does condensation depend on the amount of air space there is?

A. The condensation would be varied by air space, yes.

(Testimony of Max C. Richardson.)

Q. Would you say that the more air space the more condensation? A. No. [61]

Q. What would you say?

A. I would like to have you talk about a particular installation, if you have one. These generalities are rather difficult.

Q. You would say that condensation was affected by air space, I take it?

A. Yes, and by air temperature.

Q. Now, if you have a shingle, a metal shingle, lying flush against a piece of felt, is there condensation between those two parts?

A. Well, Mr. Kolisch, that depends entirely on the temperature of the building, on the insulation there is between there and the shingle, the temperature outside, and so many things that the question is not a pertinent question, I would say.

Q. Well, can you answer the question Yes or No? A. No.

Q. Do you know in the average installation of the patented shingle how much of the shingle back is contacted by the felt that lies beneath it?

A. No.

Q. Is any of it contacted? A. By the felt?

Q. Yes.

A. It could be. It could be.

Q. Is it usually contacted by the felt?

A. I have never been under there. I wouldn't know. [62]

Q. As an engineer what is your opinion?

A. I would suspect that up near the top of the

(Testimony of Max C. Richardson.)

shingle it might possibly at times be contacted along the ridges on the underside.

Q. Can you tell us what the function of this felt is in a roof?

A. I can tell you a reason why I would be interested in putting it on, one reason being that I would not expect a normal sheathed roof to be a seal, and I would expect the paper to make an approximate air seal of the roof if it were not mutilated in being put on and afterward. And it would give a certain amount of insulation, very little, and it would also deaden noises which might occur due to the expansion and contraction in the roof.

Q. Would the felt ever act as a blotter to absorb any water either of condensation or that might come through the shingles from the outside?

A. If I were selecting the paper, I would select one of such character that it would be fairly impervious to water. It would not be of a blotting type.

Q. You would make it of a water-repellant or waterproof type?

A. I would fill it with water-repellant material such as a tar compound.

Q. Do you know whether or not any condensation takes place underneath the valleys in a roof?

A. I would like to testify on something that I knew definitely. Just what happens under the valley of a roof I would not know.

Q. Do you know that condensation takes place under other portions of the roof than the valley?

A. Yes.

(Testimony of Max C. Richardson.)

Q. If it takes place in other portions, is there reason to believe that it takes place under the valleys? A. Yes.

Q. Would you assume, then, that condensation takes place under the valleys as well as under the shingles? A. Yes.

Q. Assuming that there is condensation under the valleys, do you know what happens to that condensation water in the patented roof construction?

A. I believe the demonstration we made yesterday would indicate what happens to that water.

Q. I don't believe that you showed any valley construction there. A. Oh, in the valleys?

Q. Yes, under the valleys.

A. No, I wouldn't care to talk about valleys.

Q. You would not know what would happen to that water?

A. No. There is no valley in the patent, as far as I know.

Q. As far as a roof of your own patented shingle is used [64] where there are valleys—and I take it that is very common—you would not know what would happen to the water under the valley?

A. No.

Q. As far as you know, there is no provision for getting rid of it?

A. I haven't seen anything in the case that would indicate that there was.

Q. Now, do you or do you not know that in roof construction, usual roof construction, a double layer of felt is provided under the valleys?

(Testimony of Max C. Richardson.)

Mr. Bischoff: Just a moment, may it please the Court. I have allowed to pass a good many questions with regard to the use of felt and the manner in which roofs are laid without objection, believing them to be somewhat preliminary to something. But we are now delving into practices which do not affect the question of the scope of this shingle as described in the claim or its infringement, which is the issue we are now trying. This witness was not examined with respect to the construction of roofs or the manner of application. He was not qualified on that. And we are now delving into double layers of felt and other matters affecting things which are foreign to the question as to what does this patent cover and was it infringed. So we shall now object to the further pursuit of that line of examination.

Mr. Kolisch: Your Honor, this witness testified concerning condensation, and this line of inquiry is directed towards condensation. As I understand his testimony, caring for this condensation water is one feature, if not the feature, of the patent.

Mr. Bischoff: May I say a word about that? He testified to condensation in so far as it was dealt with and affected by this patented shingle. He did not testify or attempt to testify to any condensation or the carrying off of condensation from valleys or other structures or varying types of construction or laying of roofs. My theory is that the cross examination should be limited to the subject matter of his direct examination and the issue we are trying.

(Testimony of Max C. Richardson.)

The Court: I think your last point is probably well taken. I shall not rule that it is not pertinent as an issue in the case, but I do rule that it is not cross examination.

Mr. Kolisch: Very well.

Q. Was the original Korter shingle—and by that I mean the one on which the patent application was filed in 1947—a good shingle which operated satisfactorily?

A. You mean to my personal knowledge?

Q. To your personal knowledge or to your knowledge as an expert?

Mr. Bischoff: That is objected to as immaterial, may it please the Court. The issue is the validity of this patent [66] and its infringement. The question of utility and worthwhileness is not an issue in this case.

Mr. Kolisch: Certainly, your Honor, this witness testified concerning the original Korter patent and now this is just the same thing, only a little better. I think it is perfectly proper cross examination to go into the original Korter application.

The Court: I think he testified with regard to some written document in that respect. If you want to ask him questions along that line, I will permit it. I don't understand that he testified generally about that at all. I think he testified to something in the file wrapper.

Mr. Kolisch: He testified concerning the file wrapper.

(Testimony of Max C. Richardson.)

The Court: Yes, all right. Cross-examine him about that, then.

Mr. Kolisch: Q. You are familiar with the file wrapper of the original Korter application?

A. I have read it; yes, sir.

Q. Did the shingle there disclosed have reversely turned edges along four sides? A. Yes.

Q. Did that shingle have corrugations in its face? A. Yes.

Q. Did those corrugations space the shingle from the roof?

A. They were part of a pile-up that spaced the shingle from [67] the roof.

Q. Did that shingle have a gutter along its bottom edge? A. Yes.

Q. Did that shingle have a fastening tab?

A. Yes.

Q. Did the original Korter shingle—by that I mean that exemplified in the file wrapper which you studied—have a drain slot?

A. It had rudimentary drain slots that you would have in folding up a shingle of that type without sealing the corners.

Q. Was there provision in that shingle for permitting the water which might accumulate on the back of the shingle to pass to the front of a lower adjacent shingle? A. In a degree.

Q. Was any claim in this original Korter application ever allowed by the Patent Office?

Mr. Bischoff: That is objected to, may it please

(Testimony of Max C. Richardson.)

the Court. The record is in evidence and it speaks for itself.

The Court: That is correct.

Mr. Kolisch: The file wrapper is in evidence. That is right, your Honor.

Q. Do you know whether or not in the original Korter application any claims were drawn to the drainage feature?

A. To tell you frankly, I have not paid much attention to the claims in the original application. I would not want to [68] say what was in the original application as far as claims go. I have examined the specifications and the drawings.

Q. I will hand you a copy of the file wrapper and ask you to look at the claims.

A. Would you state the question again, Mr. Kolisch?

Q. Were any of the claims presented in the file wrapper of the original Korter application drawn to describe or claim the drainage features you spoke about?

A. This application, of course, shows the claims as corrected by amendment, and without going through the prosecution of the case I couldn't say exactly when those amendments were put in. But the first claim is, "A shingle of the class described consisting of a rectangular body having inturned S-shaped lips along the bottom and one side edge thereof and having out-turned S-shaped lips along the top and the other side edge thereof."

Those S-shaped lips at the top and bottom help

(Testimony of Max C. Richardson.)

to form a gutter. Now there is nothing in there that says anything specific or requires that that be part of a draining structure. But it is, in effect, a drainage structure.

Q. It is not claimed as such, though?

A. You mean whether there is anything claimed here definitely?

Q. Yes, that is right.

A. As a draining means?

Q. That is right. [69]

A. I will have to look for the word "drain." I don't see the word "drain" in the original eight claims. Am I supposed to look farther?

Q. Yes, I would like you to look at any time the claims were submitted.

The Court: Of course, I don't see exactly what you are doing. If you are just testing the witness' familiarity with this, because it is a written document obviously we can find whether there is any claim of it.

Mr. Kolisch: The only reason for doing this, your Honor, is that it might be of some assistance to your Honor in looking over this file wrapper, and whether or not the drainage was presented as——

The Court: Even if this witness told me that it was not presented, and I read it and found it was, I would feel in a little quandary.

Mr. Kolisch: I don't know, your Honor, whether his testimony would be of any assistance in that matter. If it would not be of any assistance to you, we will pass it.

(Testimony of Max C. Richardson.)

The Court: You try your case in your own way, only I don't see the point of it.

Mr. Kolisch: It is only to be of assistance to you.

The Court: You are not trying your case to assist me. I assure you of that. You are trying your case because you think you can win it. Ask the questions that you want to win [70] it, if you ask pertinent questions. I think this is not pertinent to anything that I have before me. As far as the written document is concerned, I have to construe it. The witness doesn't have to construe it, and it doesn't make any difference what he thinks about it.

Mr. Kolisch: All right. You may pass that, then.

Q. You stated, Mr. Richardson, that the drain slot called for in the claim of the Korter patent was a functional requirement. A. I would say so.

Q. And you also said that it was a means for getting water from the back side of the shingle to the front of the shingle. A. That is right.

Q. Now, is the drain slot an element or is it merely a functional statement?

A. A slot—I don't like to compete with Webster, but a slot is an opening of some kind. A drain slot is a slot that drains. Now the same slot could or could not be a drain slot, depending on how it functions.

Q. Does Korter disclose any other means in his patent for disposing of this water of condensation other than the drain slot?

A. In the normal construction of shingles of this type the corners will weep—

(Testimony of Max C. Richardson.)

Q. And by "weep" you mean permit water to pass? [71]

Mr. Bischoff: Mr. Kolisch, please permit him to conclude.

Mr. Kolisch: Go ahead, Mr. Richardson.

A. —which weeping may be good or bad, depending on whether or not those narrow openings stay open. We all know that the atmosphere deposits lots of stuff on the roof, and we all know that material sheds parts of itself on its underside when it is in contact for long periods of time, and we all know that material of that kind collected with moisture will close up small apertures. Now weep slots of that kind—that is, which are incidental to construction having interlocking edges—may function for a time to do what is hoped for. But if you recognize your problem, you will have to ordinarily do something more definite to be sure that you have drainage over the life of the roof and over the life of the shingle. So that it is somewhat a matter of degree. It is somewhat a matter of recognizing what goes on. It is somewhat a matter of discovering your problem and then inventing a means for taking care of that problem, which I believe is the function or which is the exact process that Mr. Korter went through, as I see his shingle. I don't know what he did at that time. I wasn't there. But as I see the shingle and as I see the prior application, I sense—maybe you don't want my opinion. That is up to you. [72]

Q. Go ahead.

(Testimony of Max C. Richardson.)

A. I sense the examiner's condition, I sense the attorney's condition in this case, and Mr. Korter had discovered the problem. He had solved it in a degree, but had not emphasized those things to a point where the more or less crude patent drawing was such that the examiner was convinced. And, as the case proceeded, there was confusion. The examiner had made statements because he didn't quite understand, and the picture was such that it was a logical thing to re-draw a continuing application and emphasize those things, which is, I believe, the process which the prosecution went through from the first application to the continuing application, with the various things emphasized in the continuing application.

And I believe at that time, as I read the record, the examiner withdrew his objections—not positively, but by not re-asserting them—and allowed the claim which covers the exact thing which the object of the application states, the specification shows, and the claim very definitely defines.

Q. Was it, then, the invention of Korter in Patent No. 2,631,552 to improve the drainage?

A. What is that?

Q. Was it the invention in Korter Patent No. 2,631,552, according to what you have told me, to improve the drainage [73] beyond what he had in his original filed application?

A. It was to show an improvement in shingles which would take care of the condensation from the

(Testimony of Max C. Richardson.)

underside of an upper shingle in a gutter and drain it out onto the top side of a lower shingle.

Q. I call your attention to Column 1, beginning with Line 17 of the patent, where Mr. Korter says: "Fig. 3 is a fragmentary perspective view of one corner of the shingle showing the drain slot which forms the basis of this invention."

A. Yes. I don't have the patent before me. You are referring to——

Q. Column 1, beginning with Line 17.

A. What was your comment, or what did you ask me?

Q. Referring to the quoted portion which I read you there, is it correct to state that Korter's invention here was to improve the drainage which he had present in his original application by providing another drain slot?

A. Oh, not completely, no. No, Korter showed in more prominent ways various features that were essential to the improved method. Now, you will notice in Figure 6 that in order to emphasize to the examiner what they were talking about the ridges on the underside 12 had been shown definitely a little longer. You will see that in Figure 4 the interlocking joints are shown more definitely as desired, and you will [74] see that in order to show as a species of the general requirement of a drain slot Mr. Korter has in Figure 3 shown an individual drain slot away from the corner, indicating that there was definitely a function of that type required.

Q. Does the corner 22 act as a drain, also?

(Testimony of Max C. Richardson.)

A. Undoubtedly at times.

Q. With reference to Figure 6, I call your attention to the element marked 12, corrugations. Do they rest against whatever surface is beneath the shingles throughout their length?

A. Whatever surface is beneath the shingles throughout their length?

Q. That is right.

A. I would call your attention to Figure 4, which shows that they do not.

Q. The elements 12, then, do not hold the shingle away from the roof throughout—

A. Throughout their length?

Q. Yes.

A. By indirection they rest on something else which holds the shingle away from the roof.

Q. Will you explain what you mean by "indirection."

A. Do you see the figure 19 in figure 4?

Q. Yes.

A. Do you see that the underside of the cross-section top [75] of the upper shingle has a line on the underside indicating the figure 12—although the figure is not there, indicating element 12?

Q. Yes.

A. And that it rests on the curved surface 19?

Q. Yes.

A. That answers your question.

Q. Do you have any idea what portion of elements 12 rest directly against the felt or whatever it is beneath the shingle?

(Testimony of Max C. Richardson.)

A. Yes. You can take the lower side of the joint in figure 4 and estimate when the line of figure 20 would leave that as it goes away. You can do that with a ruler, if you want to guess.

Q. What would your estimate be? A half or three-quarters?

A. My guess would be about—what is a shingle? Maybe 8 inches tall. It is about one-eighth, maybe, or less.

Q. You mentioned in your testimony that the claim distinguished from the prior art; is that correct?

A. Yes, it must—I assume that the patent office would require that.

Q. Have you studied the prior art cited by the defendants in this case?

Mr. Bischoff: Just a moment. May it please the Court, we object to that as immaterial, irrelevant and incompetent [76] at this time. That is a matter of defense, as to whether the patent is affected by the prior art. We didn't question the witness about the relation of this patent to the prior art in our direct examination, and it is only available for discussion in the defendants' case. We start under the Patent Code with the presumption of correctness, and the Code specifically places the burden of proving the prior art and the other elements that affect validity upon the defendants.

The Court: I think it is not cross examination.

Mr. Kolisch: I merely asked the witness whether or not he had studied the prior art. He had testified

(Testimony of Max C. Richardson.)

that it was distinguished. I have not gone into the prior art. I am merely asking him whether he has studied it on the basis of his answer to the question asked on direct.

The Court: He can answer that. I don't think it makes much difference, but he may answer.

A. Yes, I have looked over the patents cited in the Korter patent application.

Mr. Kolisch: Q. Are there any new elements recited in the Korter claim?

A. Wait, now. What do you mean by that?

Q. By a new element I mean something different from that which existed before.

Mr. Bischoff: Just a moment. May I inquire, are you having reference to the prior application? [77]

Mr. Kolisch: I am referring to the Korter patent.

Mr. Bischoff: We object to that as going into the defense. He is now attempting to relate this patent to the prior art.

The Court: Yes. I think that I permitted him to answer this question and then you took off on another line, so I think it is not cross examination.

Mr. Kolisch: Q. Referring to the claim in the Korter patent, I call your attention to the word "substantially" in the second line of the claim, as well as the word "substantially" in the fourth line of the claim. Can you tell me what Mr. Korter meant by "substantially"?

A. I don't remember that. "Substantially" would mean that the interruption of surface or form

(Testimony of Max C. Richardson.)

would not be so sufficient that at a distance generally anyone would think of it as having been an angular or channel shape, or something of that kind. It is generally planar.

Q. Does the specification contain any definition of the word "substantially"?

A. I don't believe it does, no.

Q. I call your attention to the words appearing at the bottom of Column 2, and the first word in the beginning of Column 3, "close fit"—"a lower adjacent shingle to form a close fit therebetween." What did Mr. Korter mean by a close fit? [78]

A. To tell you the truth, I never have asked him.

Q. I am referring only to his specification, of course, in his patent.

A. I would say that that would refer very nicely to Figure 4, showing the close fit.

Q. By "close fit" does that mean a watertight seal?
A. No.

Q. There isn't any definition in the specifications, I take it, of what "close fit" means?

A. I don't know. I didn't look for that. Would you like to have me?

Q. No. If you don't recall, it is all right.

The Court: I don't want to interfere with your cross examination, Counsel, but I assume it will take some time more?

Mr. Kolisch: Yes, your Honor.

The Court: We will recess until 2:00 o'clock.

(Thereupon a recess was taken until 2:00 o'clock p.m. of the same day, at which time Court reconvened and proceedings herein were resumed as follows:) [79]

MAX C. RICHARDSON

a witness produced in behalf of the Plaintiff, resumed the stand and was further examined and testified as follows:

Cross Examination—(Continued)

By Mr. Kolisch:

Mr. Kolisch: Your Honor, for the purpose of examining the witness concerning the shingles I would like to be permitted to approach the witness.

The Court: That is not the custom of this Court, Counsel. You can examine from where you are.

Mr. Kolisch: Will you hand the witness Plaintiff's Exhibit 2.

Q. Mr. Richardson, you have in your hands Plaintiff's Exhibit 2, which is the patented shingle. I would like you to examine the lock which is formed along the bottom edge of the two shingles, between them, and would you please tell me if that is substantially the way in which those two shingles are joined to one another when placed on a roof.

A. I would assume that to be the case.

Q. If you will hold the shingles the way they are normally placed on a roof, will you please slip them together so that you can see where the bottom flange, locking flange, comes with respect to the

(Testimony of Max C. Richardson.)

drain hole. In other words, just slip them together—no, I don't mean that way——

The Court: Let Counsel fix them. [80]

Mr. Kolisch: I am afraid you took them apart again. I would like you to be able to keep them together so we can see the relationship of the locking flange in the upper and lower shingles. Can you slide them together so that the drain slot is brought in registry with the portion of the upper shingle?

The Witness: I don't understand. This is the way they are on the roof?

Mr. Kolisch: Yes.

The Court: Take them back and give them to Counsel again.

Mr. Kolisch: The only reason for moving these together, Mr. Richardson, is we cannot see where the drain slot is here. The drain slot is completely hidden. I take it the principle is the same whether it is like this or whether it is moved in; the lock functions the same way. We can't see the drain slot when we hold it like this, can we? I just want to be able to see where the drain slot is with respect to——

A. If you were using the shingles in other positions, you might put the drain slot in other positions. There is nothing about the patent that says where the drain slot shall be.

Q. Now, if you will try to hold them the way they are now——

Mr. Bischoff: May it please the Court, we will object to any question propounded on the arrange-

(Testimony of Max C. Richardson.)

ment of the shingles as [81] they are submitted on the ground that there is no evidence in the record that that is the way the shingles are aligned, either according to the patent or in practice, and all the evidence is to the contrary.

The Court: Overruled.

Mr. Kolisch: Q. Now, Mr. Richardson, can you see the drain slot now?

A. Right here (indicating).

Q. Can you see the drain slot with respect to the overlapping flange of the bottom shingle?

A. The upper flange of the bottom shingle?

Q. Yes. You can see it through there?

A. Yes.

Q. Does that flange come down into the gutter?

A. Yes.

Q. Does it divide that gutter longitudinally in two? A. That could be said.

Q. Is that the way the drain slot is when the shingles are assembled? You can't see it when they are overlapped the way they are on the easel, but is that the way they are assembled, in fact?

A. I think that is so.

Q. Now, does the upper flange which rests in the gutter tend to prevent any water from getting to the drain slot? A. No, I wouldn't say so. [82]

Q. How can water get to the drain slot with the flange in that position?

A. Easily around the end. It is not necessarily tight at the bottom.

Q. If the flange is pushed down tight against the

(Testimony of Max C. Richardson.)

bottom of the gutter, would it keep water from getting to the drain slot?

A. At that time, if it were entirely sealed off.

Q. If the water had to escape, from where would the water escape?

A. If that were the condition, it would escape around the ends.

Q. Would it escape at either end of the shingle?

A. I would think so.

Q. I hand you Plaintiff's Exhibit 3, the accused shingles, which are assembled in a similar manner. Do those shingles form a close fit along the seam as I have handed them to you?

A. I will tell you, whether shingles, or metal parts of this type form a close seam depends a lot on how they have been handled since they were made. I don't quite understand what you mean by close fit.

Q. I asked you that because it is the claim language. The patent refers to a close fit.

A. Yes.

Q. That is why I asked you whether that is a close fit. [83]

A. Well, I would think so. There doesn't seem to be any rattle in it.

Q. Can you hold those up and now turn them upside down and see if they stay together. Turn it over and just hold onto the bottom. Just hold where your hand is now and turn the shingles over and see if they fall apart. See if there is sufficient grip between the shingles to hold them to-

(Testimony of Max C. Richardson.)

gether except by gravity. Just turn the shingles in your hand, holding them straight up. Now, would you try the same thing with the patented shingle.

Thank you. You spoke earlier about dirt tending to clog the bleeder holes or drainage holes in the shingles at their corners. Is that correct?

A. Yes.

Q. Would dirt have any tendency to clog the drain hole in the patented shingle?

A. Yes, I would say so.

Q. To the same extent as it would to clog the bleeder holes at the corners?

A. What are you talking about?

Q. I am talking about dirt clogging holes in the shingles.

A. What did you just ask me a second ago when I said Yes? Did you ask me about the drain hole or the bleeder corner or what?

Mr. Kolisch: Mr. Reporter, would you read—

The Court: Never mind. Just ask him another question.

Mr. Kolisch: Q. Does the dirt which is, I take it, normally found on any roof tend to clog the drain hole in the patented shingle?

A. I would assume that it would—not the drain hole. No, I wouldn't think so.

Q. Will it clog the drainage holes at the end of the shingle? A. I would think so, in time.

Q. Why won't it clog the drain hole?

A. Probably the fineness of the material that

(Testimony of Max C. Richardson.)

would collect there would be such that it would flow off with the flow of condensation.

Q. Is that merely because the drain hole is larger than the opening at the corner of the shingle?

A. It is sufficiently large to keep open, yes.

Q. That depends, of course, on the material that is formed on the roof. If it were heavier material, it might clog? A. That is right.

Q. Now, if the corner cutaway portions were larger, would they clog?

A. If there was a sufficient opening at the corner, they would not clog.

Q. It is a function of the size of the hole, then, as to whether it would clog?

A. Size and location. [85]

Q. Do you know whether or not there is much expansion and contraction which takes place in these shingles?

A. That is easily calculated. I don't have offhand the coefficient of the expansion of aluminum. You could easily get that.

Q. Would you say that the expansion or contraction which does take place would tend to free the corners from dirt clogging?

A. Oh, not normal expansion and contraction.

Q. There would not be sufficient contraction and expansion to open up any dirt there?

A. I wouldn't think so.

Q. And it would not affect the drain hole either?

A. I would not think so.

Q. With respect to Plaintiff's Exhibits 13 and

(Testimony of Max C. Richardson.)

14, those roof sections about which you testified yesterday, did you supervise the construction of these exhibits? A. No, sir.

Q. Do you know in what condition the shingles were when they were wired together? By that I mean were they tight or loose? Did you make any examination of them?

A. I examined them after they were this way. That is, I saw them in this condition the first time I saw them.

Q. But you could not tell from that examination whether they were tightly locked in a vertical direction or not, [86] could you?

A. You mean by tightly—that is, pulled up vertically as far as they could be pulled?

Q. Yes. A. No.

Q. Now, do you know whether the amount of water which you applied to the back of those shingles is the amount which is commonly found in roofs in this neighborhood as a result of condensation?

A. I would say that the amount that was used here was a very meager amount compared with what could be found in roofs in this neighborhood.

Q. Now, as to the pitch of the roof which was determined by the slant at which the easel was, what was the pitch on the roof?

A. My guess is it was about 45 degrees. I didn't measure the pitch. That would be a half-pitch.

Q. You would say a half-pitch?

A. I would guess.

(Testimony of Max C. Richardson.)

Q. Would you say that that is a pitch that is normally found in roofs in this neighborhood?

A. Oh, yes, a half-pitch is very often found.

Q. And the pitch will affect the rapidity of the movement of the water of condensation, I take it?

A. It should, yes. [87]

Q. In your demonstration you assumed that there was no felt pad beneath the shingles?

A. There was no felt pad beneath the shingles.

Q. So that the demonstration to that extent was not a true reproduction of something that would take place under a roof?

A. Not necessarily. A roof could be made this way.

Q. Do you know of any roofs in which they have applied aluminum shingles without putting down some sort of covering? A. No.

Q. How could you be sure that the water which did appear on the face of the shingles leaked through the drain holes rather than through the slots at the ends or on the corners of the shingles?

A. Just by examination.

Q. How close are those slots at the ends of the shingles to the drain holes?

A. You are asking for a measurement? Would you like to have me measure it?

Q. I will hand you Exhibit 2.

A. What measurement is it you want?

Q. How close is the drain slot to the corner of the shingle?

(Testimony of Max C. Richardson.)

A. Here? The closest is about one-eighth of an inch.

Q. Did you observe whether water ran out of both ends of that shingle when it was applied on the roof, according to [88] your demonstration?

A. No, I didn't.

Q. Examining that shingle, is the lowermost portion of the drain slot in the bottom of the gutter?

A. In this particular shingle? You mean by the bottom this edge?

Q. I mean the bottom of the gutter. I don't know how else to define it.

A. Well, I am sure that I can measure anything you want here, if you will tell me what it is you want measured.

Q. I would like to know whether the drain slot, the lowest portion in that drain slot, the cutaway, is as low as the bottom of the gutter? In other words, is it formed in the bottom of the gutter or is it formed slightly above the bottom of the gutter?

A. Well, the bottom of the gutter would be wherever the tilt of the roof happened to be, and in some cases that would be right on the bottom of the gutter. In other cases it could not be.

Q. Normally you don't apply the shingles—as I hold the shingle towards you it leans towards you there—at an angle of let's say up to 45 degrees?

A. You mean you don't?

Q. You are looking at the back of the shingle?

A. That is right. [89]

(Testimony of Max C. Richardson.)

Q. All right. Where is the bottom of the gutter as you hold the shingle with respect to the slot?

A. I would say the bottom of it was right tangent with the bottom of the gutter, as nearly as I can look at it.

Q. As you change the pitch of the roof the position will change with respect to the slot?

A. That is right.

Q. Will you look at Plaintiff's Exhibit No. 7. I call your attention to the showing in the left-hand lower corner of the exhibit, which is the patent in suit, and there is an arrow which comes down from No. 3. That arrow points to the flanged portion which is bent over from the bottom shingle. Do you see what I am talking about?

A. I see that arrow; yes, sir.

Q. Now, that is broken away and lifted to show the drain slot which is marked No. 5. From what we saw before with respect to examining the physical structure of the patented shingle, would you say that this showing is correct as far as the relative location of the portion which has the arrow coming from No. 3? Doesn't that turned-over portion extend down into the gutter of the shingle rather than about half-way up to it and well above the drain slot as shown in this drawing?

A. Of course, the drawing is a little difficult to see, if you are not experienced in seeing this type of drawing. But [90] this Note 3 up there says, "Spacing between innerface and interlocking joint introduced by the ridges to permit condensation

(Testimony of Max C. Richardson.)

water to enter joint." Now with that meaning, this arrow is pointing to the space between the upper face of the upper shingle and the overturned lip of the under shingle.

Q. Yes. I am not talking about that place. The only reason I used that number was because it was the only line that went to the element in which I am interested. I am interested in the overturned lip.

A. Of which shingle?

Q. Of the bottom shingle. A. Yes.

Q. And whether or not that comes all the way down to the bottom of the gutter as we saw with respect to the physical exhibit which we examined, or is it as shown here in this exhibit?

A. This drawing, of course, is an illustration of two species of shingle of the Korter patent. And that Exhibit 2 is a species, and both the sample and these drawings conform to the claim—all three conform to the claim.

Q. Am I correct in stating your position with respect to the Korter patent as exemplified in Plaintiff's Exhibit No. 5, that Korter's invention was the provision of an interlocking shingle which would permit water from the back of the shingle [91] to drain to the front of the shingle?

A. Korter's claim for an improved shingle provides for other means of draining water from the underside of the shingle into the gutter, and then draining the gutter onto the next lower shingle.

Q. And any structure which does what you have

(Testimony of Max C. Richardson.)

now stated would in your opinion be an infringement of the Korter patent?

A. And which includes the other elements of the claim, yes.

Mr. Kolisch: That is all.

Mr. Brown: That is all.

(Witness excused.) [92]

HARRY E. SIVERSON

was produced as a witness in behalf of the Plaintiff and, having been first duly sworn, was examined and testified as follows:

Direct Examination

By Mr. Bischoff:

Q. Mr. Siverson, what business are you in?

A. I am a co-partner and manager of the Portland Die & Stamping Company.

Q. What business is that firm engaged in?

A. We manufacture sheetmetal parts and build tools and dies to custom specifications.

Q. Where is your place of business?

A. At 1500 Southwest First Avenue.

Q. How long have you been engaged in that business? A. Nine years.

Q. Did you perform any work for the Aluminum Lock Shingle Corporation in connection with the manufacture of dies for the stamping of aluminum shingles? A. Yes, I did.

Mr. Bischoff: Mr. Price, will you hand one of

(Testimony of Harry E. Siverson.)

these shingles, Plaintiff's Exhibit 2, to Mr. Siverson.

Q. Mr. Siverson, in addition to making dies for the Aluminum Lock Shingle Corporation did you also stamp aluminum shingles for that company?

A. Yes. [93]

Q. You have been handed an aluminum shingle. I will ask you if that is one of the shingles that you have stamped from dies that you have made for the Aluminum Lock Shingle Corporation.

A. Yes.

Q. Did you make dies for that company that did not have in them a provision for the drain slot that appears at the end of the flange?

A. Yes, I did.

Q. Did you change the dies to include this drain slot in the shingle?

A. Yes, we did.

Q. Will you state at whose request you changed the dies to provide for the drain slot.

A. I was requested by Mr. Korter, and we started to change the dies on January 17th, 1949.

Q. When did you complete the work of changing the dies to include the drain slot?

A. We completed the change in the dies on January 28th, 1949.

Q. Did you then begin to put shingles into production; that is, to stamp them in production after the change in the dies to include the provision for the drain slot?

A. That is true.

(Testimony of Harry E. Siverson.)

Q. And have you continued to stamp them with the same set of dies ever since? [94]

A. Yes.

Q. Have you any records with you that enable you to fix those two dates that you gave a moment ago?

A. Yes. I have a copy of the job card on which we made the change and on which we recorded the time of the change.

Q. Is that the card which recorded the hours and days and year in which the work was done?

A. Yes, that is right.

Q. And by whom done? A. Yes.

Q. Have you any other paper that enables you to fix the time? A. Yes.

Q. What?

A. We have a copy of the invoice that we sent to the Aluminum Lock Shingle Corporation after completing the change in the dies.

Q. Is the date on that invoice?

A. The date of that invoice is January 31st, 1949.

Mr. Bischoff: You may cross-examine.

Mr. Kolisch: No cross examination.

(Witness excused.)

Mr. Bischoff: Your Honor, may the witness be excused from further attendance? [95]

The Court: I haven't anything to do with that. If you want to excuse him, it is all right.

LOUIS J. KORTER

was thereupon produced as a witness in behalf of the Plaintiff and, having been first fully sworn, was examined and testified as follows:

Direct Examination

By Mr. Brown:

Q. Will you please state your name, and your residence.

A. Louis John Korter, 515 North Shore Road, Oswego, Oregon.

Q. What is your present occupation, Mr. Korter?

A. My present occupation is President of Aluminum Lock Shingle Corporation.

Q. When was your company incorporated?

A. September 25th, 1947.

Q. Have you had any experience in sheetmetal working and, if so, when and where?

A. Well, when I was 16 years old I took an apprentice course in sheetmetal and carried it through until I was 19 or 20, and it was here in Portland and also in Detroit, Michigan.

Q. For how long did that last?

A. Three to four years.

Q. In that connection did you or did you not have any occasion to know anything about water condensation? [96]

A. Yes, I did.

Q. Please relate your experience in that particular connection.

A. In the sheetmetal business the purpose of roofing roofs with metal is quite predominant, and

(Testimony of Louis J. Korter.)

condensation is a known factor to appear underneath metal roofing.

Q. When did you first conceive the general principles of the invention covered by your patent or your earlier application?

A. It was in the spring of 1947, in March.

Q. How do you set that date?

A. Well, March 16th is my birthday, and it was the following day that I became interested. That is how I happen to set that particular date.

Q. Will you tell the Court the circumstances of the conception of that invention, sir?

A. I was noticing cedar shingles that were being painted with aluminum paint, and the thought occurred, "Why don't they have roofing out of real aluminum?" That is how the idea first appeared.

Q. Did you ever make a drawing of the shingle which you had conceived in March, 1947?

A. No, I didn't.

Q. You mean in March, 1947, or at any other time?

A. In the summer of '47 I had a drawing made.

Mr. Brown: Will Mr. Price please give the witness Plaintiff's Exhibit 17.

Q. Can you identify Plaintiff's Exhibit 17, Mr. Korter? A. Yes, I can.

Q. The legend at the bottom, "Property of L. J. Korter," at the right, and "Design and Invention by L. J. Korter" at the left, who put that on?

A. I did.

Q. At what time was that name put on?

(Testimony of Louis J. Korter.)

A. That was in the summer of 1947.

Q. I notice the date of March, 1947, in parenthesis. Why did you put on March, 1947, when you said the sketch was made in the summer of 1947?

A. Well, in March of 1947 is when I formulated the idea of this shingle, and I thought that would be the date to designate the time of this invention.

Q. Did you personally make this sketch yourself, sir? A. No, I had it made.

Q. Who made it?

A. I had a man by the name of Mr. Weber make it for me.

Q. Do you know whether Mr. Weber is living?

A. No, he is not.

Q. When you say you had the sketch made for you, you mean you told him to make the sketch?

A. He made it at my direction, yes. [98]

Q. I notice in the upper right-hand corner there appears to be something that on the original is in pencil. Will you kindly tell the Court as to when that material in pencil was made and the circumstances.

A. At the time Mr. Weber drew that lock that you notice there it occurred to me we should have an S-lock there, and I made that on this particular drawing.

Q. To whom did you show that pencil change or addition, sir?

A. I showed this drawing to my patent attorney, Mr. Birkenbeuel.

(Testimony of Louis J. Korter.)

Q. Will you kindly give us a brief description of the shingle shown on the drawing.

A. Well, it shows a rectangular shingle with inverted ridges or legs and four-way interlocking beads, both laterally and horizontally, and a nailing tab. And in the lower gutter on each end an opening for condensation to drain out of the gutter. It shows the graining design that is on the panel, and it also shows an S-type of lock on the lower part on the right-hand side there. I think that answers the question.

Q. Will you tell the Court as to whether or not it shows a ridge or series of ridges extending from the inner side of the shingle? A. Yes, it does.

Q. I believe you stated, sir, that you showed this sketch to [99] Mr. Birkenbeuel. Do you know whether or not all of the details of this sketch, including the so-called S-interlocking joint, were incorporated in your earlier application?

A. I instructed Mr. Birkenbeuel to do precisely what is explained there. However, for some reason or other the S-lock was never incorporated in that patent application.

Q. Were you making shingles at this particular time, Mr. Korter?

A. I was making some hand-made shingles at this particular time.

Q. And did those shingles incorporate the lock shown at the upper right-hand corner of this sketch or the details that are shown in pencil as far as the lock is concerned? A. I made both kinds.

(Testimony of Louis J. Korter.)

Q. These hand-made shingles, were those being made only experimentally or for the commercial market?

A. I was making both kinds to decide which one I preferred.

Q. Now, as you went along in the fall of 1947 do you know if Mr. Birkenbeuel did actually file that patent application on or about that time?

A. Yes, he did.

Q. What was the next thing you did after that, sir, in pursuance to your general purpose of providing a shingle that took care of this water condensation after you had authorized Mr. Birkenbeuel to file your first application? [100]

A. I authorized Mr. Siverson of the Portland Die & Stamping Company to begin to make dies for the manufacture of this shingle, and after he did that I instructed him to proceed to manufacture it, which he did.

Q. I now show you three shingles marked Plaintiff's Exhibits 2-A, 2-B and 2-C, and ask you whether or not you can identify the same. No, I will withdraw that question.

Will you kindly describe the shingles that were made after Mr. Siverson made the die and you put these out to commercial use. Were they similar to that shown on the sketch with this S-joint, or were they otherwise?

A. They were manufactured with the S-joint.

Q. Will you tell the Court whether or not your company put the shingles on the Blanding Dream

(Testimony of Louis J. Korter.)

House in the summer of 1948? A. We did.

Q. Did those shingles conform to the sketch, Plaintiff's Exhibit 17, with the S-interlocking joint?

A. Yes, sir.

Q. In that case how was the water excluded from the gutter?

A. Well, if you will notice, on this drawing it shows an opening that allows this water to drain out of the gutter.

Q. Was that opening effective?

A. It was in most cases. However, occasionally we found where the conditions changed, where there was wind and dust, [101] it did clog up the openings on the lower gutter on special occasions. That bothered me, and I wanted a shingle that worked on every type of roof and every type of location. So that is why I put the drain slot in the underside of the gutter.

Q. Has any complaint ever come to your attention, sir, as to the ineffectiveness of these bleeder openings at the ends as far as the Blanding Dream House is concerned? A. No, sir.

Q. In other words, those shingles are considered satisfactory as of the summer of 1948?

A. Yes, sir.

Q. You mentioned the fact that later you incorporated a so-called drain slot in the shingle to take care of all conditions of operation, regardless of location. About when was that idea conceived of putting in the drain slot?

A. That was in the fall of 1948.

(Testimony of Louis J. Korter.)

Q. During 1948 were you continually improving or experimenting with these shingles?

A. I was.

Q. And as a result of conceiving that improvement in the fall of 1948 what did you do?

A. After I decided on how to improve the shingle with the drain slot, I contacted my die-maker and instructed him to proceed accordingly and make a drain slot to my directions. [102]

Q. That was Mr. Siverson?

A. Mr. Siverson.

Q. The gentleman who just testified?

A. Yes.

Q. When was that, approximately, Mr. Korter?

A. That was the first part of 1949, in January.

Q. Do you know of your own knowledge as to when that work was completed by Mr. Siverson of changing the dies to include this drain slot?

A. Yes. It was on January the 28th that it was completed and the dies were put back into production and we started manufacturing again.

Q. That is, in the year 1949?

A. 1949, January 28th.

Q. Have any major changes been made at all in the design or construction of your shingle since January 28th, 1949? A. No, sir.

Q. Did you go into commercial production, commercial use, since that time with respect to your latest improved shingle? A. Yes, sir.

Q. To what extent, Mr. Korter, have you and your company sold these shingles, not only in

(Testimony of Louis J. Korter.)

Portland but elsewhere? Give the names of the states or the number of locations.

A. We have sold the shingle throughout the Pacific Coast and the Midwestern States as far back as the Mississippi [103] River.

Q. Will you kindly tell us as to what contact you had with Mr. Bergman in connection with roofs and when.

A. He came to my office in 1950,—July, 1950,—and asked me to sell him a roof.

Q. Did you apply an aluminum shingle roof to Mr. Bergman's home? A. I did.

Q. You of course did file a second application on your improved shingle that added the drain slot. Do you recall the circumstances of when that application was filed?

A. I contacted Mr. Birkenbeuel, my patent attorney, in the fall of '49 and instructed him to incorporate this new drain slot in the application.

Q. Do you recall after your application was filed as to whether your original application was still pending that Mr. Birkenbeuel had originally filed?

A. At the time I asked him to incorporate the drain slot the application was still pending.

Q. Do you know any of the circumstances, sir, under which the prosecution of the first application was suspended and why?

A. I beg your pardon?

Q. Do you know the circumstances under which the prosecution of your first application was suspended and why? [104]

(Testimony of Louis J. Korter.)

A. Well, all I know is that I told Mr. Birkenbeuel, my patent attorney, to include this new drain slot opening in the gutter into a new application, and I instructed him to incorporate all of the features that I had in the original application into this new application in combination with all the elements that I had previously.

Q. Will you tell us what those features were that were taken out of your earlier application that were incorporated into the second application at the time it was filed.

A. Well, we had the inverted ridging and this S-type lock in the lower gutter, and the drain slot—the drain slot, the inverted ridges, and the S-type lock.

Q. You have before you Plaintiff's Exhibits 2-A, 2-B and 2-C. Will you just take up one of those and show the Court where you find these various elements that you mentioned that were made according to your improved patent.

A. We have the inverted ridges shown here, and we have the S-type lock. We have the drain slot, we have the nailing tab, and the ridging.

Q. Will you put three of those together, Mr. Korter, and also explain to the Court the manner in which the drain slot remains open.

A. The drain slot remains open?

Q. Yes, when you put them together.

A. Your Honor, you will notice this drain slot in this lower [105] right-hand corner right here,

(Testimony of Louis J. Korter.)

and this locking principle I have here remains open underneath with a protected area.

Q. In that position, Mr. Korter, is the drain slot protected from dust and dirt?

A. That is the idea of it being underneath this particular flange.

Mr. Brown: Will Mr. Price kindly give to the witness the four aluminum shingles marked Plaintiff's Exhibit 3.

Q. Mr. Witness, will you take one of Plaintiff's Exhibit 2 and one of those of Plaintiff's Exhibit 3 and show the Court in what respect those two exhibits are similar or different.

A. In my shingle, the exhibit here, I have the inverted ridging, and in this shingle they have the inverted ridging. In this shingle we have the S-type lock, as you notice, and it is so here. We have the graining or ridging, and we have the same thing here. We have the locking principle at the top and the side the same. We have the locking principle on the bottom here, and here in this one the same. And the tab here and the tab here, the nailing tab, right here, and the same here. It is the equivalent of my shingle in principle and in operation.

Q. Will you please state to the Court whether or not, in your opinion, the claim in the Korter patent does cover your shingle as you have shown it to the Court?

A. It does. [106]

Q. So on the basis of your demonstration, sir, you conclude that Korter's claim does read on the Bergman shingle; is that correct?

A. I do.

(Testimony of Louis J. Korter.)

Q. At the present time, Mr. Korter, how are your sales doing? Are they extensive or otherwise in aluminum shingle work?

A. They are extensive.

Q. Would you give some idea to the Court as to how extensive at the present time, sir.

A. The progress of the corporation has been consistently growing year after year, and it is our plan and program to be national, coast to coast, this year.

Mr. Brown: You may cross-examine.

Cross Examination

By Mr. Kolisch:

Q. You say your sales have been extensive. Do you advertise a lot, Mr. Korter?

A. We advertise extensively.

Q. Have you always advertised extensively?

A. We have.

Q. That was before you obtained the patent as well as after?

A. We always advertised extensively.

Q. Were your sales good prior to your obtaining a patent? [107]

A. Our sales have been consistently getting better as we have gotten older.

Q. Where did you meet Mr. Weber?

A. Where did I meet Mr. Weber?

Q. Yes.

A. It one time I lived on Brooklyn Street and he lived right in back of me.

Q. Did you know Mr. Weber for some time?

(Testimony of Louis J. Korter.)

A. Yes, I did.

Q. Did you know that he was an inventor?

A. No, I didn't.

Q. Did you know that he had some patents in his name?

A. No, I didn't.

Q. When you went to Mr. Weber with your idea, as you testified, what did you tell Mr. Weber?

A. I asked him if he would like to go to work and make up some hand-made shingles for me.

Q. I take it he said he would?

A. He wasn't working. He was on relief, and I thought it would be a good idea for him to make some extra money. And he proceeded at my direction to make the hand-made shingles for me so that I could proceed on my other work in promoting the shingle.

Q. At the time that you told Mr. Weber to make up the shingles I take it you explained everything to him, how the shingle was [108] to be made in form?

A. That is right.

Q. Had you ever seen any shingles that had reversely turned edges prior to that time?

A. Not on all four sides.

Q. You didn't know that there was such a thing as a shingle with reversely turned edges on all four sides?

A. I knew of one shingle, called the Reynolds Aluminum shingle, that I became acquainted with in the summer of 1949, and that shingle only had reverse curved edges on the top and bottom. It didn't have it on the lateral sides.

(Testimony of Louis J. Korter.)

Q. Do you know whether or not there were shingles with reversely turned edges?

A. Only that——

Mr. Bischoff: Just a moment, please. We object to that, may it please the Court, as an attempt to get into the defendants' case involving prior art, which was not a part of the direct examination of the witness.

The Court: Overruled.

Mr. Kolisch: Q. You may answer the question.

A. The only shingle I had any knowledge of was the Reynolds shingle. I knew of no other shingle on the market.

Q. Before your patent application was filed—by that I mean your original patent application—which was made in 1947 by Mr. Birkenbeuel—did you read that application over? [109]

A. I did.

Q. Did you look at the drawings? A. Yes.

Q. Did you sign an oath? A. Yes.

Q. Do you know what that oath said?

A. It stated that the drawing was as I had intended it.

Q. When did you realize that the drawing was not as you intended it?

A. At that particular time the drawing had—I had my other two types of locking devices, as you will notice here, your Honor.

Q. You stated that the drawing which was included in the original application filed in 1947 was

(Testimony of Louis J. Korter.)

not what you had told Mr. Birkenbeuel to include; is that correct?

A. The drawing I had given to Mr. Birkenbeuel was this drawing.

Q. You got exactly what you told Mr. Birkenbeuel; is that correct?

A. And I had instructed Mr. Birkenbeuel to put this S-lock in the application. When it came back it had this other type of lock on it. I made both shingles, both types of shingles, with these locks. It was later that I filed a new application and included the S-type lock.

Q. Didn't you try to include the S-type lock in the original [110] application?

A. I wanted it that way, and I don't know why it was never included.

Q. You didn't notice, I take it, when you first looked over the application that it was different?

A. I noticed it, and I asked Mr. Birkenbeuel about it, but for some reason or other I don't know why it wasn't included.

Q. Do you know that Mr. Birkenbeuel later tried to include it in the application?

A. I instructed him to include that S-type lock in the new application.

Q. What happened when you tried to include it in the old application?

A. I don't know.

Q. Don't you know that you did try to submit it and it was rejected by the Patent Office?

A. I don't know.

Mr. Bischoff: That is objected to, may it please

(Testimony of Louis J. Korter.)

the Court. The record is in evidence and speaks for itself.

Mr. Kolisch: Your Honor, the witness on direct went into detail concerning the file wrapper and was examined on it. Now if they are going into that on direct I think we are entitled to go into it on cross.

The Court: Cross examine.

Mr. Kolisch: Q. Do you or do you not know whether [111] Mr. Birkenbeuel in the original application which was filed in 1947 tried to submit an S-lock to the Patent Office?

A. I don't know.

Q. Did you ever instruct him to?

A. At the time I handed him this drawing I pointed to this S-lock and instructed him to do so. He in turn had this copy made, and why it was never included I don't know.

Q. Did you ever tell Mr. Birkenbeuel to include your idea of a drain slot in the old application?

A. We had the drain opening at the end in the first application, and I thought that was adequate. However, as I explained before, under certain conditions where the dust and particles mixed with moisture would clog up those drain openings, I incorporated this new improved protected drain slot on the underside of the gutter.

Q. Did you tell him to put that in your old application or to file a new application?

A. I told him to incorporate the drain slot in

(Testimony of Louis J. Korter.)

combination with the other elements of our first application and include that S-type lock with it.

Q. Had the Patent Office at that time finally rejected your original application?

Mr. Bischoff: Objected to, may it please the Court, on the ground that the record is in evidence and speaks for itself. [112]

The Court: I am of the opinion that you did examine on this same question about the record, and so I will permit cross examination.

Mr. Kolisch: You may answer.

A. I don't know about that particular question you have reference to.

Q. Do you or do you not know whether your original application was finally rejected by the Patent Office?

A. I don't know anything about that. I had nothing to do with that particular part of the business. My attorneys were handling that.

Q. Do you know whether or not you started an action in the District Court for the District of Columbia against the Commissioner of Patents to have a patent issued to you?

A. Again I will have to state that my attorneys were handling that procedure.

Q. You never authorized, as far as you can recall, the filing of such a complaint?

A. I left that entirely to my attorneys.

Q. Are the drain slots 21 shown in your patent necessary to accomplish the result which your pat-

(Testimony of Louis J. Korter.)

ent teaches? Do you have a copy of your patent before you? A. Yes.

Q. If there were no drain slots such as 21, would a shingle function the same as your shingle?

A. As I explained in the early conversation, we had openings [113] on the ends to act as drain slots, but they were not adequate in all operations. That is why I included this new improved drain slot to take care of all conditions.

Q. Is your answer No or Yes?

A. In what respect?

Q. I asked you whether or not a shingle that did not have those drain slots 21 would function the same as yours.

A. It would function on most occasions, yes.

Q. Do you recall when I took your deposition and I asked you the same question what your answer was?

Mr. Bischoff: We object to that, may it please the Court. The question should be read to the witness.

The Court: Yes, that is correct.

Mr. Kolisch: I will read the question. Will you hand the witness Plaintiff's Exhibit 41.

Q. Will you turn to Page 23, Mr. Korter.

“Q. These drain slots, I believe, are referred to as element 21 in your patent (presenting patent to witness). Are they necessary to the results claimed by you in your patent? “A. Yes.

“Q. If there were no drain slots such as 21 in the shingle, it would not function the same way as

(Testimony of Louis J. Korter.)

your patented shingle? "A. No." [114]

That was the question that I had asked you previously, and you indicated a different answer. Do you want to change your answer, Mr. Korter?

A. No, I do not. I answered—the question was if there were no drain slots such as 21 in the shingle it would not function the same way as your patented shingle, and I said Yes, it would function if you made provision for the opening. This answer says No. "If there were no drain slots such as 21 in the shingle, it would not function the same way as your patented shingle?" And I said, "No."

Q. Meaning that it would not function in the same way?

A. Unless—wait a minute. That is right. The answer is No. It would have the equivalent, however, in the openings at the end of the shingle. That is what I had reference to. It would not function one hundred per cent on every occasion like my shingle, but it would function in most cases, but not one hundred per cent.

Q. Does the accused shingle have drain slots like 21?

A. It doesn't have the drain slots like 21, but it has the equivalent with those openings on the end.

Q. But it does not have drain slots like 21?

A. The drain slot that I have on the underneath side of the gutter, it doesn't have that. But it does have the equivalent.

Q. Are you familiar with or were you familiar with in 1948 any type of roofing material such as

(Testimony of Louis J. Korter.)

that put out by the [115] Kaiser Company, Kaiser siding, which had drain slots in it?

A. No, I was not.

Q. You had never heard of any material that had drain slots or a provision for permitting water to drain from it as early as 1948?

A. I didn't have any recollection of that.

Mr. Kolisch: That is all.

Mr. Brown: That is all, Mr. Korter.

(Witness excused.)

Mr. Bischoff: Your Honor, the plaintiff rests.

The Court: Now, with the plaintiff resting, you may exercise your option of going ahead at the present time or waiting until Tuesday.

Mr. Kolisch: The defendants would prefer to wait until Tuesday, your Honor.

(Thereupon an adjournment was taken until Tuesday, March 30, 1954, at 10:00 a.m.) [116] Portland, Oregon, March 30, 1954, Court reconvened, pursuant to adjournment, and proceedings herein were resumed as follows:

The Court: You may proceed, Counsel.

Mr. Kolisch: On behalf of defendants we offer the following exhibits in evidence:

Defendants' Exhibit 25, a sample of shingles made according to the Crawford Patent No. 553,514.

Mr. Bischoff: We object to it, may it please the Court, on the ground there is no proof that it is a shingle made in exact accordance with the Crawford patent. It is immaterial, irrelevant and incompetent and does not tend to prove anticipation in this case.

The Court: Overruled.

(The sample of shingle above referred to was thereupon received in evidence as Defendants' Exhibit 25.)

Mr. Kolisch: As Defendants' Exhibit 26 samples of shingles made according to Miller Patent No. 2,243,256.

Mr. Bischoff: Your Honor, we make the same objection to this exhibit as to the last one.

The Court: Objection overruled. That goes to its weight and not to its competency.

(The samples of shingles above referred to were [117] thereupon received in evidence as Defendants' Exhibit 26.)

Mr. Kolisch: As Defendants' Exhibit No. 27 a shingle made by the Langville Manufacturing Company in May of 1949.

Mr. Bischoff: Your Honor, that is objected to on the grounds urged as to the last two exhibits, and on the additional ground that this shingle was not referred to in the pleadings nor by notice as required by Section 282 of the Patent Code, which requires that the defendant asserting invalidity should furnish the names and addresses of all persons involved in the prior art at least 30 days before the trial. We have had no such notice. This shingle that is now tendered was never referred to in any pleading or in any notice or any description.

May I ask your Honor's indulgence while I read to your Honor the portion of Section 282 that I refer to?

The Court: You don't need to. I know it as well as you do.

Mr. Kolisch: This shingle is not offered for the purposes Mr. Bischoff states. The shingle is offered as being manufactured in May of 1949. As your Honor knows, it is a one-year prior public use or manufacture which is a statutory bar. This is after the year. It is merely to show what the Langville Manufacturing Company was doing. Mr. Langville, who made this shingle, will appear as a witness and testify. [118]

Mr. Bischoff: Your Honor, we should have been advised that such contention would be made in this case in the manner contemplated by the Patent Code.

The Court: Is this in the pre-trial order?

Mr. Kolisch: Yes.

Mr. Bischoff: It was referred to in the pre-trial order, and we made our objection at that time. It has not been introduced into the record in the manner required by the Patent Code.

The Court: All right. I will not receive it for the purpose which the Code section announces, but I will permit its introduction on the ground that Counsel suggests.

(The shingle last above referred to was thereupon received in evidence as Defendants' Exhibit 27.)

Mr. Kolisch: As Defendants' Exhibit 28 we offer certified copy of the file wrapper of the abandoned Korter application, No. 776,332. I believe that may have been introduced earlier by the plaintiff.

The Court: The number was changed on that to Plaintiff's Exhibit 18, and it was so admitted and the pre-trial order was so amended by the Court to conform to that.

(The file wrapper pertaining to abandoned application of Louis J. Korter, No. 776,332, was thereupon received in evidence as [119] Defendants' Exhibit 28.)

Mr. Kolisch: As Defendants' Exhibit 29, certified copy of the file wrapper of Korter Patent No. 2,631,552.

Mr. Bischoff: No objection.

The Court: Admitted.

(The file wrapper above referred to was thereupon received in evidence as Defendants' Exhibit 29.)

Mr. Kolisch: As Defendants' Exhibit 30, copy of Crawford Patent No. 553,514.

Mr. Bischoff: That is objected to as immaterial and irrelevant, on the ground it does not tend to prove anticipation.

The Court: Overruled. Received.

(Copy of Crawford Patent No. 553,514 was thereupon received in evidence as Defendants' Exhibit 30.)

[See Book of Exhibits.]

Mr. Kolisch: As Defendants' Exhibit 31, copy of the Miller Patent No. 2,243,256.

Mr. Bischoff: Same objection, your Honor.

The Court: Same ruling.

(Copy of Miller Patent No. 2,243,256 was thereupon received in evidence as Defendants' Exhibit 31.)

[See Book of Exhibits.]

Mr. Kolisch: As Defendants' Exhibit 32, copy of Lewando [120] Patent No. 124,963.

Mr. Bischoff: Same objection.

The Court: Same ruling.

(Copy of Lewando Patent No. 124,963 was thereupon received in evidence as Defendants' Exhibit 32.)

[See Book of Exhibits.]

Mr. Kolisch: As Defendants' Exhibit 33, copy of Lewando Patent No. 140,928.

Mr. Bischoff: We make the same objection, your Honor.

The Court: Same ruling.

(Copy of Lewando Patent No. 140,928 was thereupon received in evidence as Defendants' Exhibit 33.)

[See Book of Exhibits.]

Mr. Kolisch: As Defendants' Exhibit 34, copy of Clawson Patent No. 1,026,202.

Mr. Bischoff: Same objection.

The Court: Same ruling. Admitted.

(Copy of Clawson Patent No. 1,026,202 was thereupon received in evidence as Defendants' Exhibit 34.)

[See Book of Exhibits.]

Mr. Kolisch: As Defendants' Exhibit 35, copy of Slaughter Patent No. 220,181.

Mr. Bischoff: Same objection.

The Court: Same ruling. Admitted.

(Copy of Slaughter Patent No. 220,181 was thereupon received in evidence as Defendants' Exhibit 35.)

[See Book of Exhibits.]

Mr. Kolisch: As Defendants' Exhibit 36, copy of Cusack Patent No. 303,921.

Mr. Bischoff: Same objection.

The Court: Same ruling. Admitted.

(Copy of Cusack Patent No. 303,921 was thereupon received in evidence as Defendants' Exhibit 36.)

[See Book of Exhibits.]

Mr. Kolisch: As Defendants' Exhibit 37, copy of Belding Patent No. 1,971,517.

Mr. Bischoff: Same objection.

The Court: Same ruling. Admitted.

(Copy of Belding Patent No. 1,971,517 was thereupon received in evidence as Defendants' Exhibit 37.)

[See Book of Exhibits.]

Mr. Kolisch: As Defendants' Exhibit 38, copy of the de Sincay British Patent No. 399, of 1869.

Mr. Bischoff: Same objection.

The Court: Same ruling. Admitted.

(Photostatic copy of de Sincay British Patent No. 399 was thereupon received in evidence as Defendants' Exhibit 38.)

[See Book of Exhibits.]

Mr. Kolisch: As Defendants' Exhibit 39, copy of Langville Design Patent No. 166,761. [122]

Mr. Bischoff: We make the same objection, with

the added objection that this patent was not pleaded in the complaint and was not referred to as required by the provisions of Section 282 of the Patent Code.

Mr. Kolisch: It is not being referred to as a statutory bar, your Honor. It is merely to show the state of the art, what the defendant was doing.

Mr. Bischoff: I want to add the further ground that this is not a mechanical patent. It is a design patent, purely, showing a picture merely. It is not relevant to the question of patentability or any other issue involved in this case.

Mr. Kolisch: The design patent, your Honor, is relevant to show on the question of infringement what the defendant was doing. It is part of the defense, of course, that the defendant was not a copyist; that he had designed his own shingle and was manufacturing according to his own patents and on his own design. We are merely putting in a design patent which the defendants obtained on their shingle.

Mr. Bischoff: Your Honor, the Patent Code requires notice and pleading of patents in all phases, including those patents to prove the state of the art as well as validity or invalidity. That is the express language of the statute. It has not been done.

The Court: I will reject it for the present. I will reserve the question, though. [123]

Mr. Kolisch: As Defendants' Exhibit 40, copy of the Pruden Patent No. 1,406,757.

Mr. Bischoff: That is objected to as immaterial

and irrelevant, and does not prove or tend to prove anticipation.

The Court: Overruled. Admitted.

(Copy of Pruden Patent No. 1,406,757 was thereupon received in evidence as Defendants' Exhibit 40.)

[See Book of Exhibits.]

Mr. Kolisch: As Defendants' Exhibit 41, the deposition of L. J. Korter, taken on September 9th, 1953.

The Court: Admitted.

(The deposition of L. J. Korter was thereupon received in evidence as Defendants' Exhibit 41.)

Mr. Kolisch: As Defendants' Exhibit 42, sample of a shingle made according to the abandoned Korter application, No. 776,332.

Mr. Bischoff: May I see that a moment, please. No objection, your Honor.

The Court: Admitted.

(The sample of shingle referred to was thereupon received in evidence as Defendants' Exhibit 42.)

Mr. Bischoff: I want to correct that, your Honor. We have no objection to the shingle going in. We object to the [124] designation given to it by Counsel as the abandoned shingle. By our failing to object we don't want it to be assumed that we agree this was an abandoned shingle.

The Court: I never assume, Mr. Bischoff, that you agree with anything opposing counsel says.

Mr. Kolisch: As Defendants' Exhibit 43, a sample of two felt pads.

Mr. Bischoff: No objection.

The Court: Admitted.

(The felt pads referred to were thereupon received in evidence as Defendants' Exhibit 43.)

Mr. Kolisch: As Defendants' Exhibit 44, the claim of the Korter Patent broken down into elements.

Mr. Bischoff: No objection.

The Court: Admitted.

(The document referred to, entitled "The Claim of Korter 2,631,552," was thereupon received in evidence as Defendants' Exhibit 44.)

The Court: The Court admits all the exhibits that were mentioned, if I did not do it specifically, with the exception of one which I rejected, which I think was No. 39.

Mr. Kolisch: Yes.

The Court: All right. [125]

Mr. Kolisch: Call Mr. Langville.

VICTOR H. LANGVILLE

one of the Defendants herein, was produced as a witness in behalf of Defendants and, having been first duly sworn, was examined and testified as follows:

Direct Examination

By Mr. Kolisch:

Q. Will you please state your name, address and occupation.

(Testimony of Victor H. Langville.)

A. Victor H. Langville, 445 Ellis Avenue, Beaverton, Oregon. I am owner of the Langville Manufacturing Company.

Q. Are you one of the defendants in this case, Mr. Langville? A. Yes.

Q. What is your training and technical background in the business which you are pursuing, Mr. Langville?

A. My experience started approximately in 1906, when I entered apprenticeship with a very large manufacturing concern in Sweden. Six years was spent to learn the trade and to go through the different departments. At the age of 19 my parents and I immigrated to the United States. In the summer of 1914 I arrived in Chicago and enrolled at Lane Technical High School nights. I obtained employment with the Alemite Metals Company. In the next two years I learned the language and something along the line of mechanical engineering. In 1916 I arrived on the Pacific Coast, in Seattle, and obtained employment with the Skinner Shipbuilding Corporation. I worked myself up to [126] foreman. A few months later I was inducted into the Army. During the time I was in the Army I did some valuable work for the United States Government. After the Armistice I moved to Spokane, Washington, where I organized the Spokane Tool & Die Works. I was head of that concern until 1935. I was doing a large amount of work for the Department of Agriculture in the Forest Service in the eradication of blister rust in Montana and

(Testimony of Victor H. Langville.)

Idaho. I learned something about aerial photography. After selling out and coming down to Portland, Oregon, I connected with the Westinghouse Electric, where I developed some of these ideas.

In 1938 I organized the Langville Manufacturing Company, with the help of Charles E. McCulloch, of Hart, Spencer & McCulloch. I developed my instruments, and when the World War started my orders started coming from the English Government, and when we started in the war I had standing orders from the United States Government for the instruments. In addition to that, I had Army orders, Maritime and Navy orders. I had some 90 men working in the actual plant, and subcontractors.

In 1948, between Christmas and New Year's, two men came to my office from the Builders Supply Company. They brought a crude model of a metal shingle and asked me if I would make the dies for it.

Q. Was that your first introduction to aluminum shingles? [127] A. Right.

Q. In 1948? A. That is correct.

Q. What happened then?

A. I asked these men if they had tried to obtain a patent. They told me they had been to a patent attorney.

Mr. Bischoff: I object to that, may it please the Court. Conversations with third parties whose identity is not known is not binding upon the plaintiff in this case.

(Testimony of Victor H. Langville.)

The Court: Objection sustained.

Mr. Kolisch: Q. With whom did you have conversations in 1948?

A. Well, after seeing this shingle I consulted with some old-time sheetmetal men and roofing contractors. They told me at the time——

The Court: Never mind.

Mr. Kolisch: Q. With whom did you have conversations? A. Roofing contractors.

Q. Do you remember their names?

A. Old-time sheetmetal men. Martin Jonasen and Al Losli. I also mentioned it to Mr. Roy Wetle.

Q. All right. Was your company retained to manufacture any aluminum shingles in 1948?

A. In the early part of 1949, right after the first of the year, I made a layout of the dies of this particular shingle—— [128]

Mr. Bischoff: Your Honor, at this time we interpose an objection to any evidence by this witness pertaining to the manufacture of anything pertaining to the prior art on the ground that the pleadings and the notice required by Section 282 of the Code did not name this witness as one engaged in either the use, manufacture or sale of those shingles prior to the plaintiff.

Mr. Kolisch: The defendant is testifying now subsequent to January of 1949. He is in the beginning of 1949. Any use subsequent to January 9th, 1949, is not a statutory bar to the plaintiff's patent.

Mr. Bischoff: We object to that with respect to any date, because the Code requires that anyone

(Testimony of Victor H. Langville.)

who is to testify regarding the use, manufacture or sale as a part of the prior art must be named and the address given and all the other requirements.

Mr. Kolisch: My understanding, your Honor, of that section is that only in the case of anticipation must there be given the 30-day notice. In the case of the state of the prior art information concerning it may be introduced at any time with no notice.

Mr. Bischoff: Will your Honor permit me to read the pertinent portions of the section?

The Court: No, don't read the statute. Have you any authority on it? [129]

Mr. Bischoff: No, your Honor. Our authority is the statute.

The Court: After all, the statute has been in existence for a great many years.

Mr. Bischoff: Oh, no, your Honor. This is the new Patent Code that became effective on January 1 of this year.

The Court: It is the same section that has been in there.

Mr. Kolisch: It is substantially the same section that has always existed.

Mr. Bischoff: It is not the same section. There are important changes in it.

The Court: I have read it, and I don't think that they are very important changes. Is there no interpretation of this section?

Mr. Bischoff: I have found no interpretation of

(Testimony of Victor H. Langville.)

the new section. If your Honor will permit me to read it to your Honor, I think to clarify it—it is only a brief portion of the section. I think it will make it clear.

The Court: I will hear from the other side, then. They are the proponents of the evidence, so I will hear them.

Mr. Kolisch: It was clear under the old statute, your Honor, as your Honor recalls, that you can introduce evidence concerning the state of the prior art at any time. It was not required to give one month's notice. [130]

The Court: Yes, that is true.

Mr. Kolisch: Under the new statute, Section 282, the note which appears does not suggest that there has been any change in the interpretation that has always been placed on this section. I am familiar with no cases under the new Act which have changed the meaning of this section.

The Court: What does the note say?

Mr. Kolisch: The note reads as follows—it is derived from Title 35, U.S.C., 1946, and then some statutory numbers are given.

“The first paragraph declares the existing presumption of validity of patents.

“The five defenses named in R.S. 4920 are omitted and replaced by a broader paragraph specifying defenses in general terms.

“The third paragraph, relating to notice of prior patents, publications and uses, is based on part of

(Testimony of Victor H. Langville.)

the last paragraph of R.S. 4920 which was superseded by the Federal Rules of Civil Procedure but which is reinstated with modifications.”

As passed by the House, Item 1 reads: “Non-infringement or absence of liability for infringement,” which was amended by the Senate. Then there follows a restatement of R.S. 4920. [131]

I submit, your Honor, there has been no change in the law.

Mr. Bischoff: Your Honor, the portion of the section involved, 282—I made an error when I stated that the effective date was January 1 of this year. It was January 1, 1953. It reads:

“In actions involving the validity or infringement of a patent the party asserting invalidity or noninfringement shall give notice in the pleadings or otherwise in writing to the adverse party at least 30 days before the trial, of the country, number, date, and name of the patentee of any patent, the title, date and page numbers of any publication to be relied upon as anticipation of the patent in suit or, except in actions in the United States Court of Claims, as showing the state of the art, and the name and address of any person who may be relied upon as the prior inventor or as having prior knowledge of or as having previously used or offered for sale the invention of the patent in suit. In the absence of such notice proof of the said matters may not be made at the trial except on such terms as the Court requires.”

Now, we submit that, as the Reviser's note states,

(Testimony of Victor H. Langville.)

this paragraph, while originally intended to be superseded or [132] was thought to be superseded by the Federal Rules of Civil Procedure, says "but which was reinstated with modifications." There were changes made or modifications made in the statute in addition to the requirements of the Federal Rules of Civil Procedure.

Mr. Kolisch: May it please the Court, the operative words, as Mr. Bischoff read, are "or as having prior knowledge of or as having previously used or offered for sale the invention of the patent in suit."

We are not offering this information and these exhibits as anticipating the invention. We are showing the state of the prior art. If you try to anticipate the invention, then you must give 30 days' notice. We are not offering this as anticipation.

The Court: What does the section say about prior art? What is the clause about prior art?

Mr. Kolisch: "In actions involving the validity or infringement of a patent the party asserting invalidity or noninfringement shall give notice in the pleadings or otherwise in writing to the adverse party at least 30 days before the trial, of the country, number, date, and name of the patentee of any patent, the title, date and page numbers of any publication to be relied upon as anticipation of the patent in suit or, except in actions in the United States Court of Claims, as showing the state of the art, and the [133] name and address of any person who may be relied upon as the prior inventor or as having prior knowledge of or as having previously

(Testimony of Victor H. Langville.)

used or offered for sale the invention of the patent in suit.”

It is prior art as to the invention; not as to the state of the prior art.

The Court: I don't know about that. I hadn't taken in the full force of that before. That suggestion about prior art, it seems to me, might be given a different interpretation.

Mr. Bischoff: Your Honor, may I be permitted to make one brief observation? We are particularly insisting upon this objection because from the very inception of this case we have been insisting upon obtaining information of those who were to testify concerning the prior art. Extensive argument was made on the subject before Judge McCulloch when the motions were heard, and I called it to the attention of the Court at the time the matter came up here for setting of the case for trial. Subsequent to that Counsel complied with that request to the extent of sending us a written notice of one person who would be relied upon for testimony as to prior art, and that was a man named Nabb, who was named in the pre-trial order, and that information was given to us in the form of a letter and the substance of it was inserted in the pre-trial order. So at no time were we led to believe [134] that this witness would be used to give evidence upon any phase of the prior art or as to any patents or any anticipation, and we are not in a position to meet his testimony upon that phase of the case.

Mr. Kolisch: We are not required to furnish

(Testimony of Victor H. Langville.)

them with information as to who is going to testify concerning prior art patents. There is no requirement in the statute concerning that. It is only if I am going to offer a witness who has himself prior knowledge that goes more than one year back of anticipation. Then I must give them the 30 days' notice. Mr. Langville is about to testify concerning shingles which he developed in his own plant, and the shingle which we are now presenting is not a statutory bar.

The Court: Why didn't you tell them about it?

Mr. Kolisch: I am under no requirement to tell them about it.

The Court: All right. Why didn't you tell them? Do you want to try these cases with Aces up your sleeve?

Mr. Kolisch: Not at all, your Honor.

The Court: I am going to impose terms on you now, irrespective of the statute, in view of the situation. What terms do you want imposed?

Mr. Bischoff: Your Honor, we would of necessity have to request that we be given an opportunity to meet any evidence that is developed which we are not prepared to meet [135] at this time.

The Court: All right.

Mr. Bischoff: And investigate matters pertaining to the use, manufacture or development of a shingle which is to be deemed a consideration in connection with the prior art. We will want a continuance for the purpose of supplying and accumulating such additional information and to make the

(Testimony of Victor H. Langville.)

evidence available. Had we known that he would be used for this purpose, we would have taken his deposition to obtain disclosure and discovery and as to the factual matters involved in that sort of testimony.

The Court: All right. How much time do you want?

Mr. Bischoff: Your Honor, I can't say at this time until we know what his evidence is going to be. When he has concluded his evidence, I could better say what we will need in that connection to supply the additional information.

The Court: I want to be fair to the other side. Do you want to go ahead now under this situation?

Mr. Kolisch: Yes, your Honor.

The Court: Even though I give them time to answer?

Mr. Kolisch: Yes, certainly.

The Court: All right.

Mr. Kolisch: And I may say on this matter, your Honor, you feel that perhaps I have held back. I didn't know any more who their expert was going to be than they knew that [136] this man was going to appear. I didn't know Mr. Richardson was going to come and testify. I have never heard of a patent case where there was any obligation on one side to disclose to the other side what each person is going to testify to—and particularly where this man is a defendant. They took the deposition of one defendant.

The Court: Mr. Richardson is in an entirely

(Testimony of Victor H. Langville.)

different situation. I think they have a point about it. I think it should have been disclosed. Since it has not been, I will go ahead with the trial until such time as Mr. Bischoff says that he is embarrassed, and then I will grant a continuance.

Proceed.

(Short recess.)

The Court: You may proceed.

Mr. Kolisch: Q. Mr. Langville, I show you Defendants' Exhibit 27, and ask you if you can identify it.

A. This is a shingle made by our concern.

Q. Do you know about when you made that shingle?

Mr. Bischoff: Your Honor, may it be stated for the record that our objection goes to this line of examination in so far as it is an attempt to establish prior art, use, sale or manufacture, and will go to all of this line of examination without the necessity of repeating the objection?

The Court: I had understood that I had already taken [137] care of that situation. I said that I would impose terms and give you an opportunity to meet whatever is put in on that line.

Mr. Bischoff: Very well.

The Court: And grant a continuance of the case. Go ahead.

Mr. Kolisch: Q. When did you make that shingle, Mr. Langville?

A. This shingle was made in the spring of 1949.

(Testimony of Victor H. Langville.)

Q. Does that shingle have a drain hole in the gutter? A. Yes, it has.

Q. Is that the shingle that you engineered?

A. Yes.

Q. Did you ever apply for a patent on that shingle?

A. My son applied for a design patent in 1950. It was granted in 1952.

Mr. Kolisch: Your Honor, I now renew my offer of Defendants' Exhibit 39, which is the design patent of the Langville shingle.

Mr. Bischoff: Objected to as immaterial, irrelevant and incompetent; not a mechanical patent; and it has no bearing on the question of the prior art involved in this shingle before the Court.

The Court: Overruled. I will be able to segregate those things in my mind, I am sure. [138]

(The design patent, No. 166,761, was thereupon received in evidence as Defendants' Exhibit 39.)

Mr. Kolisch: Q. Did you ever apply for a mechanical patent on that shingle, Defendants' Exhibit 27? A. No, sir.

Q. Why didn't you apply for a mechanical patent?

Mr. Bischoff: Objected to as immaterial.

The Court: Objection sustained.

Mr. Kolisch: Q. Will you take Plaintiff's Exhibit 3, which is the accused shingle, and compare it with Defendants' Exhibit 27. Will you please

(Testimony of Victor H. Langville.)

compare whatever similarities or dissimilarities you see between those two shingles.

A. Where they are similar?

Q. What similarities or dissimilarities do you see between those shingles?

A. Or dissimilarities. Well, this particular shingle, which is Exhibit 27—

Q. Is that the one with the slot?

A. Yes.

Q. That is Plaintiff's Exhibit 27.

A. It has a drain hole at the left-hand lower corner.

Mr. Bischoff: Your Honor, may I ask the witness to talk a trifle louder so I can hear him?

The Court: Yes; speak up. [139]

The Witness: And Exhibit No. 3—

Mr. Kolisch: Q. That is Plaintiff's Exhibit 3. That is the accused shingle.

A. Yes. Exhibit 3 has an overturned edge on the left-hand lock which forms a trough.

Q. Does Plaintiff's Exhibit 3 have a drain slot like that shown in Defendants' Exhibit 27?

A. Would you repeat that question?

Q. Does Plaintiff's Exhibit 3 have a drain slot like that shown in the Defendants' Exhibit 27?

A. No, it hasn't.

Q. Are those two shingles substantially the same with the exception of the locking flange which you referred to in the upper left corner and the drain slot?

A. I would say that they are.

Q. What did you say?

(Testimony of Victor H. Langville.)

A. I say they are.

Q. I see. Now, when did you make up the first shingles like the accused shingle, Plaintiff's Exhibit 3?

A. The first shingles came off the press in 1953, in April.

Q. Prior to that time did you make any other shingles which were similar to Defendants' Exhibit 27 or Plaintiff's Exhibit 3?

A. Yes. The shingles produced before that didn't have this overturned edge in the left-hand corner.

Q. Did they have a drain slot?

A. No, sir.

Q. Why did you eliminate the drain slot?

A. Well, after we put the first shingles to a test we found that the drain slot didn't serve any particular purpose in our opinion.

Q. Have you manufactured aluminum shingles for others besides the Perma-Lox Company?

Mr. Bischoff: Objected to as immaterial.

The Court: What is the purpose of the question?

Mr. Kolisch: The purpose of the question, your Honor, as will be developed, is that the witness has manufactured other shingles in which there is no provision for drain slots and drainage of condensation which was stressed in Plaintiff's case.

The Court: All right. Proceed.

Mr. Kolisch: Q. Have you manufactured aluminum shingles for others besides Perma-Lox?

A. Yes, I have.

(Testimony of Victor H. Langville.)

Q. Who are some of the other people for whom you have manufactured aluminum shingles?

A. In the early part of 1949 I made them for the American Aluminum Shingle Corporation.

Mr. Bischoff: Your Honor, I can't hear the witness.

Mr. Kolisch: You will have to speak a little louder, [141] Mr. Langville.

A. I made them for the American Aluminum Shingle Corporation in 1949, and we made shingles for the Bartlett Shingle Company, which have been produced for approximately three or three and a half years.

Q. Did you ever make any shingles for any others that you recall now?

A. We made a Polsky shingle.

Q. With reference to the Bartlett shingles, do those shingles have any provision for drainage or drain holes on the back?

A. No, there is no drain hole or drain opening in it. If we are talking about drainage, every shingle has a natural drainage where they are locked together.

Mr. Bischoff: We object to that, may it please the Court, and move to strike the answer, as to what every shingle has. We have no shingles here or any information about them from which he can testify.

The Court: Overruled.

Mr. Kolisch: Q. For how long have you manufactured the Bartlett-type shingle?

(Testimony of Victor H. Langville.)

A. Somewhat over three years, approximately three and a half years.

Q. Have you had any complaints or difficulty from users of that shingle?

A. No, sir. [142]

Q. Are you familiar with any of the regulations of The Federal Housing Authority, the FHA, concerning the requirements of drainage or drain slots on the back of shingles?

Mr. Bischoff: Objected to as immaterial, if the Court please.

The Court: Objection sustained.

Mr. Kolisch: Q. From your experience do you think it is necessary to provide drain slots or drainage on shingles?

A. Through our experiments we found that the drain slots and drain holes do not serve any particular purpose, because every shingle has a natural drain slot where they are put together in the corners.

Q. Do you consider condensation to be a problem which has to be taken care of in the construction of aluminum shingles?

Mr. Bischoff: I object to that as immaterial, his belief or opinion about that problem.

The Court: Is he testifying as an expert?

Mr. Kolisch: This witness has had considerable experience as far as the construction of shingles is concerned and the use. He can testify as an expert.

The Court: All right. If this is offered as expert testimony, I admit it.

(Testimony of Victor H. Langville.)

Mr. Kolisch: Q. Do you consider condensation to be a problem which must be taken care of in aluminum shingles?

A. When a roof is properly insulated and with proper air [143] conditioning I believe, in my opinion, that condensation is a very minor issue.

Q. Now, in the case of the accused shingle, Plaintiff's Exhibit 3, if there should be any condensation on the back of the shingle, how is it taken care of?

A. Well, every shingle or every roof, I should say, with shingles on it, metal shingles, or even composition shingles, if any water should come from the outside and get in there it will find the lowest point in the natural drainage. It has been that way for many, many years.

Q. On what particular portion of the accused shingles would any such water, if there is any, drain?

A. Where they are joined together.

Q. And would that water find its way to the face of a succeeding lower shingle?

A. It naturally would have to.

Q. Now, in the case of the accused shingle I note that the corners are open. In your experience has there been any clogging of these corners with dirt or other foreign matter?

A. I have never seen any clogging. I imagine there has been some.

Q. Do you know whether or not there has been

(Testimony of Victor H. Langville.)

any patent or patent application filed on the accused shingle, a structure patent?

Mr. Bischoff: Objected to as immaterial. [144]

The Court: Everybody know there has not been, don't they?

Mr. Bischoff: I beg your Honor's pardon?

The Court: Doesn't everyone know there has not been?

Mr. Kolisch: No, your Honor. It is our position there has been an application filed on the accused shingle.

The Court: What difference does that make?

Mr. Kolisch: To show that he is not a copyist. He developed his own shingle.

Mr. Bischoff: That doesn't prove it.

The Court: It is absolutely immaterial. Stricken.

Mr. Kolisch: Q. Will you take Defendants' Exhibit 25. Can you identify Defendant's Exhibit 25?

A. These are patterns that one of our die-makers made from the Crawford patent of 1896.

Q. Were those shingles made up under your supervision? A. Yes, more or less.

Q. Will you compare Defendants' Exhibit 25 with the patented shingle, Plaintiff's Exhibit 2. Please state what you find that is similar or dissimilar between those two shingles.

A. Well, the Crawford has a nailing tab which the patented shingle has, and it has got reversely turned edges. The Crawford shingle has auxiliary tabs which can be used as a lock, which the patented shingle hasn't got.

(Testimony of Victor H. Langville.)

Q. Does the Crawford shingle have a gutter?

A. Yes, it has.

Q. Is there any provision for drainage in the Crawford shingle?

A. Wherever the shingles are locked together you can't get a perfectly tight joint, and naturally there would be some drainage.

Mr. Bischoff: A little louder.

A. There would be some drainage coming out between the shingles. That is natural.

Mr. Kolisch: Q. Are there any other points that you want to bring out concerning these two shingles?

A. I notice on the patented shingle it has impressions in the upper and the lower overturned edges, and it also has a drain slot at the left-hand lower edge.

Q. The Crawford shingle, I take it, then, does not have indentations such as shown in the face of the shingle in the patent?

A. The design shows in the patented shingle, where this one is blank. It has no design.

Mr. Kolisch: Your Honor, we would like to have the witness perform a demonstration similar to that performed by Mr. Richardson, by assembling the Crawford shingles and subjecting them to the water test.

Q. Will you please assemble the Crawford shingles such as they would be assembled on a roof and perform your experiment. [146]

Mr. Bischoff: May it please the Court, we shall

(Testimony of Victor H. Langville.)

object to the demonstration to be performed upon the Crawford shingle on the ground that an assembly of shingles as they are assembled here in court does not reflect the true assembly of the shingle as described in the patent. The Crawford patent requires in the application of that shingle to a roof that the edges be flattened down. To read from the specifications:

“Underneath is turned up, as shown in Fig. 1, in this way firmly securing the shingles together at the corners. All the folded edges fastened together are hammered down, so as to be substantially flat and perfectly waterproof.”

Now that is the way in which a true demonstration would demonstrate the operation of the Crawford shingle, and not the loose assembly as it is made here in court.

The Court: You may proceed.

Mr. Kolisch: Q. Mr. Langville, have you assembled a section of Crawford shingles such as they would be assembled on a roof?

A. Will you please state that again?

Q. Have you assembled a section of Crawford shingles such as might typically be assembled on a roof?

A. Well, I imagine that the shingles would be assembled like this except for this turned-up edge, which serves as a lock. [147]

Mr. Kolisch: Turn up the edge, then. Now, are you ready to proceed, Mr. Langville?

A. Yes.

(Testimony of Victor H. Langville.)

Q. Will you please apply a spray of water to the back of those shingles and describe what you are doing, and then describe any results which you observed.

Mr. Bischoff: Your Honor, may we have permission to observe the demonstration from the back?

The Court: Yes. Don't interfere with it.

Mr. Kolisch: Q. Will you describe what you are doing, Mr. Langville.

A. I am spraying water on the back of the shingles. Being that we only have a very small section, I can't do like Mr. Richardson, go over a whole section, but I am applying the water as nearly as I possibly can upon the center section.

Q. Would you observe what is happening to the front of the shingle, Mr. Langville? Would you observe what is happening to the front of the shingle?

A. The water is coming out through the lock on both sides.

Q. The water that is being applied to the back of the shingle is draining to the front of a lower adjacent shingle?

A. That is right, through here. Also, it comes through the locks at each side, at each end.

Q. That would be at the corners of the shingle, the openings through the corners of the shingle?

A. Where the next shingle would be joined together.

Q. And any water on the back would be transferred to the front of the lower shingle?

(Testimony of Victor H. Langville.)

A. Yes, sir. This is coming through there. Of course, there is no insulation on the back of it.

Q. You mean you don't have a felt pad or anything like that? A. That is right.

Q. But this is similar to the demonstration which Mr. Richardson performed on the accused and on the patented shingle which you are now performing on the Crawford shingle?

A. Yes, as far as I understand it.

Q. Mr. Langville, I hand you Defendants' Exhibit 26, and ask you if you can identify those shingles.

A. Yes. These are shingles made by our diemaker.

Mr. Bischoff: A little louder, please, Mr. Langville.

A. These are shingles produced by one of our diemakers, which is supposed to represent the Miller patent—taken off of the Miller patent drawing. It is made in miniature form so as to be easy to handle.

Q. Are those shingles of the same size as those suggested in the Miller patent?

A. In the Miller patent they suggest they can be made up to any size. They do recommend something 30 to 50 inches in length. But in using aluminum, with the expansion and contraction that you have in a long piece of aluminum, it is [149] impractical to use anything 50 inches long, because you would get quite a buckle in the center by having the nailing tabs so far apart.

(Testimony of Victor H. Langville.)

Q. Did the Miller patent contemplate the use of aluminum?

A. I am not sure. It could be copper; it could be galvanized iron. That possibly has a lot less of expansion than aluminum.

Q. Will you please compare Defendants' Exhibit 26, which are the Miller shingles, with Plaintiff's Exhibit 2. Plaintiff's 2 is the patented shingle.

A. The patented shingle?

Q. Yes. Do both of those shingles contain reversely turned edges?

A. Yes. The top and the bottom are reversely turned, and so are the upper section and the lower section. They are reversely turned.

Q. Is the Miller patent of the interlocking type shingle? A. Yes, it is.

Q. Now, I call your attention to the drawings, Figures 7 and 8, in the Miller patent, which is Defendants' Exhibit 31. I will ask you what you there see.

A. Well, Figure 6 shows an assembled section of the Miller patented shingles. Figure 7 shows the locking part of the Miller shingle, which as far as I can see is an S-lock which fits apparently perfectly tight and close together.

Q. Would you say that Figure 7 and 8 disclose the S-type [150] lock? A. Yes.

Q. Referring to the patented shingle, what type of lock does that have?

A. Well, it looks to me like they would be identical, or very close so.

(Testimony of Victor H. Langville.)

Q. Refer to Plaintiff's Exhibit 5. While he is getting Plaintiff's Exhibit 5, refer to the accused shingle, Plaintiff's Exhibit 3, and tell me whether or not that shingle has an S-lock like that shown in the patented shingle or the Miller shingle.

A. Well, I wouldn't say so, because that impression is very light, only to turn up so that one would lock into the other.

Q. How would you characterize the type of lock in the accused shingle?

A. Well, just the reversely overturned edges, and in the manufacturing process the edges are just turned over slightly so as to be able to assemble together.

Q. Do those reversely turned edges in the accused shingles form a close or a tight fit?

A. I would say it would be a very loose fit—very loose.

Q. All right. Will you refer to Plaintiff's Exhibit 5, which is the principle of the Korter invention. Will you compare that with the Crawford shingle. Now what similarities do you see between the principle of the Korter invention as [151] set forth in this exhibit and the Crawford shingle.

A. Exhibit No. 5 shows the dripping of water from one shingle onto the top of the other through the gutter. And any type of shingle will naturally do the same thing. It all depends on where the water comes from, if there is any water in the back of it. It doesn't make any difference if it was Crawford's or if it was any other shingle, in my opinion.

(Testimony of Victor H. Langville.)

Q. Does the Crawford shingle have the same principle as shown in Plaintiff's Exhibit No. 5?

A. I would say so.

Q. Will you refer to Defendants' Exhibit 44. You will note that Defendants' Exhibit 44 has the elements of the Korter claim listed numerically.

A. Yes.

Q. Referring to those elements, will you tell me with respect to element 1, "a substantially flat sheet of metal of uniform thickness," does such an element exist in the prior art shingles as you know them?

The Court: I don't think that is a proper question, unless he is talking about any shingles that he knows about.

Mr. Kolisch: Q. Referring to the Crawford shingle, does it have it in the Crawford shingle?

A. I would say that they are substantially the same except, of course, in the design. [152]

Q. It is a substantially flat sheet of metal?

A. That is right.

Q. Referring to element 2, "corrugations in said shingle," are you familiar with Defendants' Exhibit 37, the Belding patent? Are you familiar with that patent?

A. I believe I have seen it once or twice.

Q. Does that patent disclose corrugations?

A. Yes, it has a number of fine and coarse corrugations.

Q. Does it have ridges as called for in element No. 3?

(Testimony of Victor H. Langville.)

A. Yes, it has. It has ridges—about three of them.

Q. Now, referring to element No. 4, “the lateral edges of the shingle being reversely turned,” does the Crawford patent have reversely turned lateral edges? A. Yes, it has.

Q. Referring to element No. 5, “curved outer edge portions for interlocking the shingle with laterally adjacent shingles,” does the Miller patent have that element?

A. Yes, it has. It has reversely turned edges.

Q. Does the Crawford have it also?

A. Yes.

Q. How about elements Nos. 6, 7, 8 and 9, which are further definitions of the construction of these reversely turned edge portions, referring to them as half-round, and reversely turned, and having a gutter?

A. Yes, it seems to me they all have the same—very similar. [153]

Q. How about element No. 10?

A. It also seems to be identical.

Q. With reference to element No. 11, “a fastening tab,” does Crawford have a fastening tab?

A. Yes.

Q. With reference to element No. 12, “a drain slot,” does Crawford or Miller have drain slots?

A. No, there is no drain slot fabricated in the metal.

Q. Is there provision for drainage in both these patents?

(Testimony of Victor H. Langville.)

A. Only natural drainage that they all have.

Q. I call your attention to Defendants' Exhibit 40, which is the Pruden patent. Are you familiar with that patent? A. I have seen it once.

Q. Does that patent show a drain slot or drain hole?

A. Yes, it has. It seems to me this particular section shows in the drawing as two holes.

Q. What are they referred to as in the patent, the element numbers?

A. They are referred to as drain holes.

Q. What is their number? A. No. 17.

Q. Will you point out to the Court where those elements 17 are?

A. Shown at two points here, and also shown in the gutter at [154] two points.

Mr. Kolisch: All right. That will be all. You may cross-examine.

(Thereupon a recess was taken until 2:00 o'clock p.m. of the same day, at which time Court reconvened and proceedings herein were resumed as follows:) [155]

Afternoon Session

VICTOR H. LANGVILLE

a witness produced in behalf of Defendants, resumed the stand and was further examined and testified as follows:

Cross Examination

By Mr. Brown:

Q. Mr. Langville, I believe you said, sir, that

(Testimony of Victor H. Langville.)

you saw two sheetmetal men somewhere between Christmas of 1948 and the following New Year's?

A. That is correct.

Q. Did you say those men's names were Martin and Losli? A. Martin Jonasen and Al Losli.

Q. About that same time, sir, did you see or talk to anybody else in connection with aluminum shingles?

A. Yes, I was talking to Mr. Roy Wetle.

Mr. Bischoff: I didn't hear the name.

A. Roy Wetle, W-e-t-l-e.

Mr. Brown: Q. Is it not a fact, Mr. Langville, that you also talked to a gentleman by the name of Al Myers around that time? A. Al Myers?

Q. Yes, sir.

A. Mr. Myers came into our place of business approximately that time, yes. That is right.

Q. And what did Mr. Myers talk to you about at that time, sir? [156]

A. Mr. Myers didn't talk about hardly anything to me. It was through someone else. Mr. Myers come into our office with another gentleman.

Q. What was his name, please?

A. Fred Polsky.

Q. Did either Mr. Myers or Mr. Polsky bring any aluminum shingles with them?

A. They brought a rough sample of a shingle.

Q. Did you know that Mr. Al Myers was a salesman for Mr. Korter?

A. I didn't know that. I know that the men

(Testimony of Victor H. Langville.)

come in and represented themselves to be from the Builders Supply Company.

Q. Now, these samples that you said Mr. Myers brought to you, what did you do with those?

A. They would possibly be around the plant. They were just a sample made similar to the Crawford patent. It was cut out of one piece of metal and just formed up. They told me that their sample was made by some sheetmetal works in Portland.

Q. Did they tell you the name of the sheetmetal works?

A. No, they didn't. I didn't even ask them about that.

Q. Are you quite certain that that shingle Myers showed you was not a Korter shingle at that time?

A. No, sir; it was not. It was a plain piece of metal without [157] any kind of a design on it. It was a plain piece of metal with the edges turned up and down reversely.

Q. Do you know whether the bottom or lower edges were turned up and down respectively, sir, to form a so-called S-lock in the shingle that Mr. Myers showed you?

A. No, the edges were turned over something like the Crawford patent that I know now. I didn't know at that time.

Q. Did you inquire of Mr. Myers at that time as to whether he was or was not a salesman for Mr. Korter?

A. Sir, I didn't know, and I didn't ask him that question.

(Testimony of Victor H. Langville.)

Q. I believe you testified, sir, that beginning in July, 1952, you made aluminum shingles both with the drain slot and without the slot. Did you make any for him such as that?

A. No, sir; I didn't. In 1949, in the spring, we turned out about 126 shingles with a drain slot in them. We discontinued right after that, because we didn't find any particular purpose in using the slot. Our records will show that, will bear out my statement.

Mr. Brown: Will you kindly hand Mr. Langville Defendants' Exhibit 27, please. I beg your pardon. What I want is Defendants' Exhibit 39.

Q. Does that design patent, Mr. Langville, show the shingle that you were making or had made, as you said, in the spring of 1949?

A. Yes, it is identical. [158]

Q. Will you tell me, sir, as to whether that design patent shows a drain slot in that shingle?

A. Well, the way the lines are in this particular shingle I don't believe it would show if there was one in there. Now this patent was taken out—

Mr. Bischoff: Just a moment. We object to that. It is beyond the scope of the question.

The Witness: Please ask the question again. I didn't quite understand it.

Mr. Brown: Q. Can you explain, sir, why it was that, as you say, you had made a shingle with the drain slot in the spring of 1949 and then your company took out a design patent just a few months later and deliberately left off that drain slot? You

(Testimony of Victor H. Langville.)

had a right, sir, to have shown that drain slot in that design patent, but you didn't. Can you explain that?

The Court: That question is stricken. That is argumentative.

Mr. Brown: Q. Will you explain, sir, as to why you didn't show the drain slot in your patent.

A. This patent was taken out—it was filed on August 25th, 1950. We discontinued after making about 126 samples—we discontinued the slot. If I remember correctly, it was a year later that this application was filed.

Q. I believe you testified when referring to the Miller patent that it had interlocking edges. Did you make that statement, [159] sir?

A. I said it had curved edges, interlocking at the top and the bottom with the curvature.

Q. Does the Miller patent show the so-called S-lock at the top and the bottom of the shingle?

A. The patent shows that.

Q. It does. Will you please look at Figures 4 and 5, elements 5 and 7, of the Miller patent, Defendants' Exhibit 31, and tell me whether or not those elements 5 and 7 constitute a so-called S-lock.

A. Did you say 5 and 7?

Q. Yes, elements 5 and 7.

A. Well, in mechanics we would say an S-lock. It is not a perfect S the way I would write the letter S, but in mechanics we would designate that as an S-lock.

(Testimony of Victor H. Langville.)

Q. What about Figures 4 and 5 in that patent? Are elements 5 and 7 an S-lock or not?

A. The figures 5 and 7, the way I see it, is the ends turned up. That is a flat bent-over portion with the ends slightly turned up, which is not the top or the bottom.

Q. But is it not true, Mr. Langville, that Figures 7 and 8 merely show that the S-lock is at the ends of the shingle shown in the Miller patent?

A. The Figures 7 and 8 show—let's see. It could be designated as the end or the top, the way I see it. [160]

Q. So that Figures 7 and 8 show the S-lock at the ends of the shingle and Figures 4 and 5 show an entirely different kind of lock at the top and bottom of the shingle. Is that not correct, sir?

A. Well, I would say that the draftsman could possibly have made it more distinct on the ends in order to make it more of a perfect S than what you have here.

Mr. Brown: I move that that answer be stricken on the ground that it is a legal conclusion only.

The Court: Overruled.

Mr. Brown: Q. Is it your understanding, Mr. Langville, that Mr. Korter is claiming the use of the so-called S-lock only in connection with the ends of the shingle?

A. I would say his S-lock is shown on the top and bottom of the shingle. The ends are flat.

Q. Is it not true, sir, then, that Miller does not show the use of the S-lock at the top and the bot-

(Testimony of Victor H. Langville.)

tom of the shingle the same way as Korter is claiming that particular element?

A. I say it is very, very close to the same. Mr. Korter might possibly have a slightly deeper impression than what is shown here. Not very much.

Q. Will you again look at the Miller patent, particularly the ridges C^o and B¹ shown in Figure 7, and tell the Court, sir, as to whether those ridges project upwardly from the upper surface of the shingle or downwardly from the inner [161] surface of the shingle.

A. According to my interpretation they are embossed from the inside out.

Q. In other words, they project upwardly from the outside of the shingle, sir?

A. Correct.

Q. Is it not true, too, Mr. Langville, that these upstanding ridges do not extend down to the lower boundary of the shingles as they do in the Korter shingle?

A. According to this particular drawing it comes within a short distance of the lower boundary.

Q. Do you agree, sir, that it does not extend to the lower edge?

A. According to the drawing it does not go right down to the line.

Q. Would you know, sir, if and when these Miller shingles are connected together any gutter is formed down at the lower end of the shingle through which water actually passes along that gutter, or is that curvature closed up at the joint?

(Testimony of Victor H. Langville.)

A. The way the metal is folded there is bound to be a slight opening at the end of the shingle, and it does form a gutter.

Q. Will you please tell the Court as to whether there is anything in the Miller patent which indicates the formation of condensation water on the inner surface of the Miller shingle. If so, please point to the specific place where that occurs. [162]

A. If this shingle is laid properly, I would say the condensation would be nil with proper insulation.

The Court: That answer is stricken. Answer the question.

Mr. Brown: Will the Reporter please read the question.

(Last question read.)

A. I don't see in the patent where there is anything mentioned about condensation, in the Miller patent. I fail to see it. I might have missed it in reading it.

Q. Let's turn now to the Belding patent, Defendants' Exhibit 37, will you please tell the Court whether or not Belding shows any S-type lock from one shingle to the next lower adjacent shingle.

A. Belding shows a turned-over edge without any curvature whatsoever.

Q. Would you agree with me, sir, that the ridges 13, 14 and 15, therefore, do not and cannot space the inner surface of any one of those shingles from the convolution or the upper scrolled surface of the next adjacent shingle?

(Testimony of Victor H. Langville.)

A. I didn't understand the first part of the question when you say a space. I didn't quite understand it. Will you please repeat it?

The Court: I think it should be rephrased. I don't understand it either.

Mr. Brown: Thank you, sir. [163]

Q. Do you know what the purpose of Mr. Korter's inverted ridges 12 is that extend laterally across the shingle, Mr. Langville?

A. You mean the embossing in the shingle that runs vertically?

Q. No, the wide corrugations that extend laterally across the shingle.

A. Yes. I call it embossing. Pardon me.

Q. All right. Do you know what the purpose is in the Korter patent?

A. I am not absolutely sure. My impression would be it would be for strengthening and for design. That would be my impression.

Q. That is the only purpose you know of in that case?

A. That is right. That is the only purpose I know of.

Q. Is it not a fact, Mr. Langville, that those ridges were put in there for the specific purpose of raising the inner surface of the shingle from the scroll of the interlocking joint of the next adjacent shingle? Is that not a fact, sir?

A. Well, sir, I wouldn't know. I didn't design the shingle, and I can't state that. I don't know,

(Testimony of Victor H. Langville.)

really, the purpose except for strength and possibly design.

Q. Have you ever read the Korter patent, sir?

A. I have skimmed through it once, possibly. I am not too familiar with it.

Q. Are you familiar with patents at all, Mr. Langville? [164]

A. Well, I have seen possibly about 10,000 of them from other inventors over a period of about 35 or 40 years. I have taken out two of my own. That is the extent of my—

Q. Then you have not studied Korter's claim which determines the scope of his invention, have you, sir?

A. Well, I have heard it discussed, and I formed an opinion that Mr. Korter was trying to produce either a barrier or a lead for condensation. I have heard that discussed. If you wanted me to recite the claims of the patent, I couldn't do so word for word.

Q. Assuming that Mr. Korter's ridges 12 were put in there for the specific purpose of serving as legs, if you please, to space the inner surface of the upper shingle from the scroll of the next lower shingle, will you tell us, sir, as to whether the Belding patent utilizes those lateral ridges for that same purpose or not.

A. Figure 2, No. 16, shows that the deep grooves are protruding or are not on the same plane as 13 and 15. They are quite outstanding in the picture.

Q. But did you also read, sir, on Page 1, begin-

(Testimony of Victor H. Langville.)

ning with Line 89, which says, "the ridges formed by the depressions 13, 14 and 15 are in substantially the same plane with respect to the underside of the shingles." Do you see that statement, sir?

A. Will you please repeat the number on the page.

Q. Yes, beginning with Line 90 on the first page.

A. It says, "the ridges formed by the depressions 13, 14 and 15 are in substantially the same plane with respect to the underside of the shingles." Is that what you mean?

Q. Yes. I was wondering if you had read that, Mr. Langville.

A. The underside. No. 16 shows in the picture protruding above slightly. You asked for 16, too, didn't you?

Q. But did you find in the Korter patent, sir, that the lateral ridges did extend below the inner surface of the shingle? If you would like to check on that, I will send one of those Korter shingles to you.

A. I would like to have that and also a straight-edge, please, so I can lay it across the shingle. That will determine the lowest point. I don't know if it is low or high, but I would like to demonstrate.

Q. Would you look at the shingle, then. If you require a straightedge, sir, we will give you one aluminum shingle, Plaintiff's Exhibit 2.

The Witness: Would you please ask the question again?

Mr. Brown: Yes. Would the Reporter read the question.

(Testimony of Victor H. Langville.)

(The question was read as follows: "But did you find in the Korter patent, sir, that the lateral ridges did extend below the inner surface of the shingle?")

A. I would say the surface in between the two vertical depressions [166] is higher, where the shingle itself with the small embossing is riding on whatever is underneath. Does that answer the question?

Q. What about that portion of the inner surface, sir, in the region of those lateral ridges? Isn't that portion below the upper level of the ridges?

A. You mean close to the vertical lines?

Q. Yes.

A. It has a rounded surface where it would leave a slight opening from your highest point of your vertical depression to your highest point in between, and you would have a low point there of about approximately one-eighth of an inch.

Q. Turn now to the Crawford patent, Defendants' Exhibit 30. I believe you testified this morning, Mr. Langville, that the Crawford patent does show a gutter down at the lower end of the shingle. Did you so testify?

A. That is correct.

Q. But did you read, sir, Page 1, beginning at Lines 98, 99 and 100, which says: "All the folded edges fastened together are hammered down, so as to be substantially flat and perfectly waterproof." I wish to ask you as to whether under those conditions the Crawford shingle would have a gutter; that is, after it is applied to the roof.

(Testimony of Victor H. Langville.)

A. If the overturned edges were hammered down on the roof, where it would be installed, I doubt very much that the metal [167] would close perfectly tight. I believe there would be a certain amount of springage where it still would leave a slight opening. I don't believe you can take three pieces of metal or four, we will say, and squeeze them together without a certain amount of springage coming out. I don't believe they would ever be perfectly tight. Especially hammering them down on a piece of wood or on a piece of felt, or any soft material, I don't believe they would be perfectly tight. Not watertight. I would like to carry out that experiment.

Q. Is it not true, Mr. Langville, that the Crawford patent was not designed to have a gutter in view of that statement contained in the specifications which I read?

A. That, sir, I don't know. Looking at the pictures it shows quite an opening. I don't quite know if Crawford intended to have a gutter or not, but it shows so in his drawing.

Q. When you made your demonstration, sir, you put those four so-called Crawford shingles up on that easel. Did you take the trouble to lay the Crawford shingle exactly the way it was stated in the specifications of the Crawford patent?

A. I believe as close as a man can possibly do it without measuring.

Mr. Brown: May I approach the model there, sir?

(Testimony of Victor H. Langville.)

The Court: Yes. [168]

Mr. Brown: I would like the witness to leave the witness stand for a moment and to tell us as to what would happen, by demonstration, to all of these folded edges if these edges were hammered tight in accordance with the teachings of the Crawford patent, as expressed in that statement that I read previously. Will you kindly show the Court, sir, just what edges would be hammered tight in that respect and demonstrate it on the inner side, if you please.

A. If any mechanic or applicator on the roof would hammer this edge or any other edge with a piece of metal in between, you would still have enough of an opening that the water would penetrate and would come through this opening.

Q. In that case, Mr. Langville, would not it be hammered tight at least in spots along there, under those circumstances?

A. The metal in forming — this has a certain springiness, I would say, and in putting that together the only way you could possibly get that watertight or get it tight enough would be to have a block of heavy steel back of it, and then you would have to hammer every portion of this. Otherwise the springage would open up and some water would go in there. It will not be watertight in the corner, because you do have several thicknesses of material right there, and you could not obtain a watertight joint.

Q. Would you agree with me on this, Mr. Lang-

(Testimony of Victor H. Langville.)

ville, that the flattening of that down as described in the patent would close [169] this edge here and close that opening between the inner side of the shingle and the outer surface of the next adjacent shingle so that you would have no space in there?

A. I beg to disagree with you. There is going to be some space in there, in my mechanical experience. There would be some space in there.

Q. Assuming that there is no space there by this hammering-down process, sir, what would happen to any water that may have collected on the inside of that shingle? I say may have collected. In that case what would happen to that water, if anything?

A. If you have any water on the inner side, it would follow the natural lines of the edge and it would find its way out between the two units.

Q. You don't think, sir, that in the meantime any surface water underneath would drop to the rafters?

A. It would go to the lowest point, wherever that lowest point is.

Q. Would you agree, sir, that the teaching of the Crawford patent is that as a result of hammering these folded edges together the roof will be substantially flat and perfectly waterproof? Do you believe that or not?

A. I don't believe that you can hammer it and make it waterproof. I think that is against the way I have been taught. You can't get it perfectly waterproof by hammering it. You [170] can't get it

(Testimony of Victor H. Langville.)

perfectly waterproof by hammering it. You are going to leave openings someplace.

Q. Is it your opinion, sir, that Crawford could not accomplish the very thing that he set forth in his specification, which was to make a "perfectly waterproof" roof? That, sir, is on Page 1, Lines 13 and 14, together with, of course, Lines 97 to 100.

A. I believe I am going to disagree with Frederick Crawford. It would not be practical to try to hammer a roof down, every joint, because you couldn't make it perfectly waterproof unless you do solder the joints.

Q. I believe you also testified, Mr. Langville, that in your opinion, at least, the principle of Korter's invention was also shown in the Crawford patent. Did you make that statement this morning, sir, as shown on Plaintiff's Exhibit 5?

The Witness: Please repeat that.

(Last question read.)

A. I meant that any water which could be behind the shingles would show up approximately the same on both Korter's and Crawford's patent, if there was any water.

Q. By that did you mean that is on account of the fact—at least in your opinion, sir—that you would not be able to hammer the Crawford shingle absolutely tight at the joints? Was it on that basis that you made that statement?

A. Not necessarily. Not necessarily. A tight shingle has to [171] be soldered, and in the Crawford patent it is not. It cannot be tight.

(Testimony of Victor H. Langville.)

Q. Where do you find in the Crawford patent any mention whatsoever, sir, of the problem which Korter's invention was directed to, namely, the elimination of water condensation?

A. It doesn't mention condensation in his patent, and apparently he doesn't believe in condensation.

Q. Then by what right, sir, did you try to simulate the condensation of water by using that squirt-gun on the opposite side of the Crawford shingles, if you don't find it in the Crawford patent?

A. I am going to answer that if you had a backing of insulation you couldn't squirt water in there. This is only a repetition of your own demonstration. That is not a true action on a roof.

Q. But you will admit, sir, that the Korter shingle is directed to eliminate the water condensation, and you have also, I believe, admitted that the Crawford patent is not directed to eliminate the water condensation. So would you agree, sir, that we had the right to put water on the back of our shingles to simulate the elimination of water condensation but you did not? Will you agree with that?

The Court: I strike that question as being argumentative.

Mr. Brown: Will you kindly hand the witness Defendants' Exhibit 27 and one of our shingles, Plaintiff's Exhibit 2. [172]

Q. When you made that shingle, Defendants'

(Testimony of Victor H. Langville.)

Exhibit 27, did you have in front of you, sir, one of the Korter shingles, Plaintiff's Exhibit 2?

A. No, sir. Can I explain? I had in front of me at that time about a three- to four-foot piece of siding which had drain holes in the lower edge. That is how this particular opening happened to originate. That siding had been used for a long time previously, made by the Reynolds or the Kaiser Company. -

Q. Will you tell the Court, then, how is it that the opening you put in Defendants' Exhibit 27 is substantially of the same shape and substantially the same size and in substantially the same position as in Plaintiff's Exhibit 2, which is the Korter shingle.

Mr. Kolisch: Your Honor, I object to that line of questioning. He is assuming all these things, and it is argumentative.

The Court: Objection sustained.

The Witness: I don't believe that the size—

The Court: Just a moment. I have sustained the objection.

Mr. Brown: Q. Is the drain slot in there substantially in the same position as in the Korter shingle, Plaintiff's Exhibit 2?

A. You mean from the corner or from the opposite end?

Q. From the corner, the nearest corner, please.

A. There is approximately an eighth of an inch difference, and the slot is almost twice as large.

Q. In which shingle, please?

(Testimony of Victor H. Langville.)

A. I would say the width of it.

Q. In which shingle is it twice as large?

A. The Langville shingle would be twice as large in area as the Korter shingle.

Q. Is the general shape, sir, of the drain slot that you put in the Langville shingle, Defendants' Exhibit 27, substantially the same as the general shape that is in the Korter shingle, Plaintiff's Exhibit 2?

A. I have never seen the Korter shingle before, so I wouldn't know. I wouldn't know.

Q. Would you please compare them now.

A. I say the Langville shingle opening is longer and almost twice as wide.

Q. What about the general shape, please?

A. It is quite different in shape. Any rectangular opening that is twice as wide naturally would have a different shape. It is almost square compared to Korter, which is just a rectangular slot approximately an eighth of an inch or five-thirty-seconds in width. There is quite a difference if you compare the two of them.

Q. Would the drain slot in the Langville shingle, Defendants' Exhibit 27, function the same way as the drain slot in the [174] Korter shingle, Plaintiff's Exhibit 2?

A. We made 126 shingles and discontinued for the reason that it didn't serve the purpose.

The Court: That answer is stricken. Answer the question.

The Witness: I misunderstood the question, your Honor.

(Testimony of Victor H. Langville.)

Mr. Brown: Q. Was the slot you put in Defendants' Exhibit 27 designed to serve the same purpose as the drain slot in Plaintiff's Exhibit 2?

A. You mean at the time it was designed this way? You are referring to the time——

Q. Yes, that is all right.

A. Our customer at the time insisted on some kind of an opening in the lower edge, and at their suggestion we put the slot where they wanted it.

Q. Did you not testify this morning, Mr. Langville, that you engineered that particular shingle, Defendants' Exhibit 27, and not your customer?

A. I engineered it with the assistance of the customer. In other words, we take an order or a job to do anything. We don't go out and take our own ideas. It has to come from the customers, as long as they are paying the bill.

Mr. Brown: Will you kindly give Exhibit 44 to the witness.

Q. I understood you to testify, sir, that element 2 on [175] Defendants' Exhibit 44, which was the corrugations claimed of the Korter patent, read on the Belding patent. Did you make that statement in regard to the corrugations?

A. Will you please say that again?

(Last question read.)

A. May I see the patent?

Mr. Brown: Show him Defendants' Exhibit 37.

A. I said they were similar.

Q. When you made that statement, did you read the part of element 12 which says that "said cor-

(Testimony of Victor H. Langville.)

rugation ridges on the inner face of the shingle must be adapted"—I am putting that "must be adapted"—to space said reversely turned edge portion of the lower adjacent shingle from the inner face of said shingle so that moisture can travel along the inner face of the shingle and into said gutter." Did you take that into consideration, sir, as qualifying the function of these corrugation ridges?

A. I referred to it as a design or as a groove, the way I made my answer. I didn't go into the patent. I took that on its face value from the drawings.

Q. In other words, you were just looking at the Belding patent and you saw what you thought were corrugations spaced laterally of the shingle, and that is the reason you said you found the corrugations in the Belding patent. Is that correct, sir?

A. The corrugations were like the Korter patent. The water does follow those corrugations, if there is water on the inside, and would go to the gutter.

Q. Will you tell the Court, sir, as to whether or not the Belding patent has element 7, which is "a half-round portion"—referring, of course, to the interlocks—"one side of which is tangent to the plane of the shingle and the other side of which terminates in a reversely curved portion." Will you tell the Court whether Belding has that.

A. The two end locks are reversely turned with more or less of a flat bend.

Q. Where do you find in Belding a half-round

(Testimony of Victor H. Langville.)

portion, sir, as constituting part of this interlock between the shingles? Do you see a half-round portion there or not?

A. No, there is nothing on the drawing showing a half-rounded portion when it comes to the lock.

Mr. Brown: That is all, sir.

Redirect Examination

By Mr. Kolisch:

Q. Mr. Langville, referring to the Crawford patent, which is Defendants' Exhibit 30, was Mr. Crawford in his patent concerned with waterproofing his shingle from the outside elements or from the inside?

A. My opinion would be that he was more concerned to stop [177] the water from the outside going into the roof.

Mr. Kolisch: Thank you. That is all.

Mr. Brown: That is all.

(Witness excused.) [178]

ROY WETLE

was produced as a witness in behalf of the Defendants and, having been first duly sworn, was examined and testified as follows:

Direct Examination

By Mr. Kolisch:

Q. Please state your name, address and occupation.

(Testimony of Roy Wetle.)

A. Roy Wetle. Do you want the business address?

Q. Yes.

A. 915 Southeast Hawthorne. Roofing and sheet-metal contractor.

Q. Mr. Wetle, how long have you been engaged in the roofing and and sheetmetal business?

A. 44 years.

Q. What experience have you had during that time with metal roofs?

A. Considerable with metal roofs.

Q. Have you built and applied metal roofs during the last 44 years?

A. Very few, up until about—well, for 40 years, almost, they have been discontinued. That is, the shingle type.

Q. How about other metal-type roofs?

A. Oh, yes. Tin roofs, flat tin, standing seam roofs, copper roofs, lead and composition.

Q. You have been applying that type of roof right along for the last 40 years?

A. Continuously. [179]

Q. You say you have not applied any shingle roofs?

A. That is right. Not for at least 40 years.

Q. 40 years ago what kind of shingle roofs did you apply?

A. Well, very similar to some that you have shown. Mostly a diamond-point type, though.

Q. The Crawford type that is shown over there

(Testimony of Roy Wetle.)

on the easel, is that the type of shingle that you were familiar with 40 years ago?

A. No. It would be turned so that the point would be down. It would be called a diamond point. It would be practically square but turned so that the point would be down.

Q. Now, during your years of experience in metal roofs have you ever come across the problem of condensation?

A. We come across that in very many roofs; not only roofs, but in other things, skylights, and any type of sheetmetal work.

Q. What has been your experience with respect to condensation underneath metal roofs?

Mr. Bischoff: That is objected to, may it please the Court, unless it is limited to condensation in connection with roofs of this type that we are concerned with, and as to that the witness has testified that he has had no experience.

The Court: Overruled.

A. Well, if the metal comes in contact with any warm air [180] underneath, and there is cold air outside, there will be condensation. Usually if we apply metal over an old roof, we use a vapor barrier.

Q. What do you mean by a vapor barrier?

A. Well, that is usually a waterproof paper, or semi-waterproof.

Q. What does that vapor barrier do?

A. Well, that insulates the roof so that your

(Testimony of Roy Wetle.)

temperature is approximately the same on both sides.

Q. In your experience does that eliminate condensation on the underside of the metal roof?

A. It has done very well for us, and so I assume that—that would be my opinion, that it does.

Q. Have you ever had any complaints or troubles about metal roofs that you have installed regarding the influence of condensation?

A. Yes, we have.

Mr. Bischoff: Objected to as immaterial, may it please the Court, and not applicable to the conditions that prevail here.

The Court: Perhaps you would like to withdraw the objection after his answer.

Mr. Kolisch: Q. Will you please explain, Mr. Wetle, what trouble you have had with respect to condensation.

A. Well, after installing a metal roof with no ventilation in the attic space, why, you very often have condensation. It [181] is easily solved by ventilation.

Q. What do you mean by ventilation in the attic space?

A. Well, you put on ventilators, either louvres or roof ventilators in the building, a couple of roof ventilators.

Q. Has it been your experience that if you install that this condensation is taken care of?

A. Very generally.

Q. If there should happen to be any moisture

(Testimony of Roy Wetle.)

from underneath a shingle on a metal roof of any type in your experience what happens to that moisture?

A. Well, the moisture—the very little that I have ever seen form on it will be absorbed in this same waterproof paper or the wooden deck under it. It just depends on whether it is a new or an old roof.

Q. In your experience is there any problem in dissipating or getting rid of any such water that may form? A. There never has been.

Q. I am sorry. I didn't hear you.

A. There never has been.

Mr. Kolisch: You may cross examine.

Mr. Brown: No cross examination.

(Witness excused.) [182]

JAMES W. DeYOUNG

was produced as a witness in behalf of the Defendants and, having been first duly sworn, was examined and testified as follows:

Direct Examination

By Mr. Kolisch:

Q. Will you please state your name, address and business.

A. James W. DeYoung. My place of business is 1019 Southwest 10th Street.

Q. What is your business, Mr. DeYoung?

A. I am an architect.

(Testimony of James W. DeYoung.)

Q. For how many years have you been an architect?

A. I was as a boy apprenticed in 1900 in an architect's office.

Q. You have been engaged since 1900 in architectural work?

A. Yes, sir; except during World War I for a short time.

Q. Have you ever had any experience with roofs made from metal or metal shingles?

A. Yes, sir.

Q. Have you had applied to buildings that you have designed and on which you have acted as architect such roofs?

A. I have.

Q. Are you familiar with the patented shingle, Plaintiff's Exhibit No. 2?

A. No, I am not. I have seen the shingle, but I have had no experience with it and haven't used it. [183]

Q. Have you used any type of metal shingles on buildings that you have designed or acted as the architect on?

A. I have.

Q. What kind have you used?

A. Well, some thirty-five years ago we used copper shingles.

Q. Can you describe what that copper shingle was like.

A. It was similar to this, only of different pro-

(Testimony of James W. DeYoung.)

portions. It was more like this. The locks and things were similar to this, but it is pretty hard to say that they were similar. They slid together.

Q. The type of shingle that you are describing, were those shingles fastened to one another by overlapping edges which were interlocked?

A. Yes, sir.

Q. I take it you have been present in court here for the last few days and have heard what the witnesses have had to say concerning this problem of condensation?

A. Yes, sir.

Q. In your experience do you have anything to do concerning condensation underneath metal or metal shingle roofs?

A. In my experience and in my own practice in laying a metal roof we always put felt under it to protect it against the change in temperature or if there is any moisture that gets through it is absorbed in the paper.

Q. Now, in buildings which you have designed and have prepared [184] specifications for have you specified that there be a provision for drainage or drain slots underneath metal roofs to take care of any water that may form there?

Mr. Bischoff: That is objected to, may it please the Court, as immaterial and irrelevant. The issue is whether this particular shingle has been made and does function and the question of patentability and infringement. It is not a shingle designed to be put up under specific conditions under which this witness or some other architect may design a roof. We

(Testimony of James W. DeYoung.)

are concerned with the issue of whether it functions under the various conditions that may arise. This question is directed to what he would do, what this witness would do, in connection with some roof that he designed. That is not relevant to the issue of validity that we have here.

The Court: It may not be, but I am not going to be disturbed by it. Objection overruled.

Mr. Kolisch: Answer the question.

The Witness: The question, please?

(Last question read.)

A. No, sir. We have made no provisions for drain slots.

Q. Now, I call your attention to the patented shingle which you have before you and ask you if you have noticed the provision for a drain slot in that shingle? A. Yes, sir.

Q. Would you specify a shingle having a drain slot like that [185] in the construction that you acted as the architect on?

Mr. Bischoff: Objected to as immaterial.

The Court: Yes, I think that has nothing to do with it. Objection sustained.

Mr. Kolisch: Q. In your opinion, Mr. DeYoung, does the provision of a drain hole in a shingle such as you have before you constitute a structural improvement?

A. I can't see it has any value.

Mr. Bischoff: Just a moment, please. Objected to as immaterial, and on the further ground he has

(Testimony of James W. DeYoung.)

not been qualified as an expert to express an opinion.

The Court: I think that is correct. Objection sustained. Besides, you are asking him the very question you want me to decide.

Mr. Kolisch: You may cross examine.

Mr. Brown: No cross examination.

(Witness excused.) [186]

HARRY X. BERGMAN

one of the Defendants herein, was produced as a witness in behalf of Defendants and, having been first duly sworn, was examined and testified as follows:

Direct Examination

By Mr. Kolisch:

Q. Will you please state your name, address and business.

A. Harry X. Bergman, 256 Northwest Macleay Boulevard, Portland. I am partners with my wife in the operation of six women's ready-to-wear stores; also a hotel. We are joint partners, and have been for twenty-nine years.

Q. Now, are you connected with the defendant Perma-Lox? A. Yes, I am.

Q. What is your connection?

A. I am president of the corporation.

Q. Mr. Bergman, when did you become interested in aluminum shingles as a business?

A. It was in the spring of 1952.

(Testimony of Harry X. Bergman.)

Q. How did you launch yourself in this business?

A. Well, I happened to know a lot of men in the business, and I was approached—one man who approached me was a Mr. Polsky, who claimed he had a set of dies, and he asked me if I wouldn't enter into an agreement with him to go into business with him.

Q. Then what did you do?

A. Well, I proceeded to investigate. I wanted to see if his [187] dies were in good condition, so we had them tried out at different places, and they didn't work right. So in the process I was informed about a company that was called the American Aluminum Shingle Corporation, who were operating at the time, that had some dies and a little merchandise on hand. I went over there and I talked to a Mr. Losli, who told me that he had a set of dies and aluminum, and that he was engaged in the sheetmetal business and didn't have any time for this other thing, and he would be interested in selling out. I asked him about patents, whether there was any patents involved, and he said that as far as—

Mr. Bischoff: We object to hearsay testimony, may it please the Court.

The Court: Objection sustained.

A. We agreed upon a price and I bought out the corporation.

Mr. Kolisch: Q. That was the American Aluminum Shingle Corporation?

(Testimony of Harry X. Bergman.)

A. American Aluminum Shingle Corporation.

Q. Then did you have somebody continue manufacturing shingles for you of the type the American Aluminum Shingle Corporation had?

A. Yes, sir; Mr. Langville, who had been making these shingles for the American Aluminum Shingle Corporation, made them for the Perma-Lox Corporation.

Q. Mr. Bergman, are you thoroughly familiar with the patented [188] shingle and with the accused shingle?

A. Yes, sir; I am.

Q. Will you please take Plaintiff's Exhibit 2 and Plaintiff's Exhibit 3. Referring to the accused shingle, Plaintiff's Exhibit 3, will you please point out what features that shingle has as a shingle.

A. Well, No. 1, it has a lock on the top and bottom which is called a loose U-lock or slip seam, and on the edges it also has a loose lock.

Q. Will you compare those locks with the construction on the patented shingle.

A. On the other shingle the lock on the top and bottom is an S-lock. The S-lock forms a tight lock and will not allow for expansion and contraction. The locks on the other side are the ordinary slip seam lock that is used in metal work. Now, on our shingle here in our upper left corner we have a patent-applied-for watertight lock. It is metal that protrudes on this corner and overlaps. When it is hooked into this other shingle, it forms a watertight lock on top, where a lot of water as a rule has a tendency to leak in.

(Testimony of Harry X. Bergman.)

Q. Is that to prevent water from the outside—

A. To prevent water from leaking in from the outside.

Q. How can water from the outside get in there?

A. Well, ordinarily—I wonder if I could have another one of these so I can explain. Now ordinarily when two of these [189] are hooked together—

Q. Are you now referring to the patented shingle?

A. The patented shingle. If you look up in the corner, you will see light coming through, and where there is light coming through water can be driven in there with a high wind and rain. It can blow water through there. We have eliminated that by our lock.

Q. Would you please engage two of your shingles together.

A. Now, in locking these together and looking underneath there you can't see any light at all going through, because it has been blocked off by this extra end metal which has been added to the shingle, eliminating any chance of water entering at this point.

Q. Will you continue with your comparison of the two shingles.

A. Now, our markings or embossings are in there for a purpose. The purpose is to add strength. These lines add a lot of strength to this.

Q. That is the accused shingle?

A. Yes. Also, this line in between—

(Testimony of Harry X. Bergman.)

Q. What are you referring to?

A. This groove in between.

Q. The vertical groove?

A. That is right. That is put in there for the purpose of strengthening and nothing else because, as you see, it is good and strong and will not rattle.

Q. What are you doing now, when you shake the shingle?

A. Yes, that is just to prove that it adds a lot of strength.

Q. Do you find such features in the patented shingle?

A. Well, I find a groove here which the inventor claims lays on his roof and that forms a footing. Anyone knows that when any part of a shingle touches a roof that the point which is low, if there is any water on there or condensation, it will run onto the roof in place of into the gutter. On ours this line never hits any part of the roof. It is above.

Q. What line are you referring to, Mr. Bergman?

A. The groove in between the equally spaced lateral points.

Q. It does not project beyond the reversely turned edges so that it will rest on the roof?

A. That is right.

Q. As in the patented shingle?

A. That is right, sir. Ours will not rest on the roof. Ours is away from the roof at all times, and if there is any water up behind it will easily drain off without hitting any part of the roof.

(Testimony of Harry X. Bergman.)

Q. All right. Are there any other comparisons that you can make between these two shingles?

A. Well, in our corner, the right and left-hand corner, provision is made to hook these shingles together. With this opening here it allows any moisture, if it forms, to drain off of this hole naturally, right through the seam here. As far as [191] clogging, when these things are hooked together the expansion and contraction will open those up, and whenever it expands and contracts the natural flow of water will wash away anything that could blow up in there.

Q. Referring to the patented shingle, what do you find in the gutter of the patented shingle?

A. I also find a little opening on the end, a drain slot.

Q. Are there any other features or comparisons you wish to make between the two shingles?

A. Well, on ours we have an extra stiffening line right on the end of the shingle here, which is not in this other shingle.

Q. You mean the patented shingle?

A. In the patented shingle. Also, in locking ours together it will easily allow water to drain off at either end without any trouble at all. Now, in this other shingle here—

Q. You are referring to the patented shingle?

A. In the patented shingle here, if it was possible for the Court to see that by locking these together, it actually blocks off any access of any water to this little hole. Now, if the Court would allow,

(Testimony of Harry X. Bergman.)

I have prepared a little thing and if the opposing attorney doesn't mind I would like to show the Court—

Mr. Kolisch: This, your Honor, is not an exhibit, but it is the same shingles that are in evidence now, and one of them is merely cut away to show what goes on behind two shingles [192] when they are secured to each other.

The Court: Why wasn't it marked?

Mr. Kolisch: This was an exhibit which was prepared only since the beginning of the trial, your Honor.

The Court: All right. I exclude it.

Mr. Kolisch: All right. It is excluded.

The Witness: If this shingle here is hooked together as it was intended to, it forms a tight S-lock in the gutter and will cut off any chance of any water getting out to a high degree.

Q. You are referring to the patented shingle?

A. Yes, sir. Right through there. And this other edge form an S-lock that goes down to the bottom of the gutter, cutting off any chance of water flowing down easily through this slot, the drain slot. It comes out of the ends.

Mr. Kolisch: You may cross examine.

Cross Examination

By Mr. Brown:

Q. Mr. Bergman, aren't you the General Manager of the Perma-Lox Corporation?

A. Yes, sir.

(Testimony of Harry X. Bergman.)

Q. And, in general, you have charge of the design of any shingles that your corporation puts out?

A. Yes, sir. [193]

Q. Now, on that last answer that you gave, when you said that a part of the upper shingle at the S-lock would come down so tight as to prevent any water from going through, were you here at the time, sir, that we put on that demonstration?

A. Yes, I was.

Q. Did you see any water coming through on the front side, even though that S-lock was tight?

A. Where did it come out, though? Through the hole or through the seam? I noticed water coming out, but was it established where it came from?

Q. But at least you saw water coming out, did you not, sir, in the neighborhood of the drain opening?

A. Yes, sir; I saw water coming out.

Q. I think you said, Mr. Bergman, that those wide grooves in your shingle were put in there for strengthening purposes. Did you make that statement?

A. That is right, sir.

Q. Would they not have the same strengthening effect if you had put the grooves up the other way, the same way as the Miller patent, for example?

A. Yes, they would have the same effect, to strengthen.

Q. Then for strengthening purposes why did you put them downwardly, the same as Korter, instead of upwardly, the same as Miller? [194]

A. Because it looked better.

Mr. Kolisch: I object to that question, as to do-

(Testimony of Harry X. Bergman.)

ing it the same as Korter.

The Court: Overruled. Besides, the witness has answered.

Mr. Brown: Q. Now, coming to that slip seam which I think you said you may have invented, Mr. Bergman—

A. The slip seam? No, sir. That was invented before you and I were born.

Q. I mean that little appendage that you have up there in the upper right part of your shingle.

A. This lock? This is called a watertight lock.

Q. A watertight lock? A. Yes, sir.

Q. You said on account of that you could not see light through two of your shingles. Did you make that statement? A. Yes, sir.

Q. If you were to take that watertight lock off, would you see the light through two of your shingles? A. Yes, sir.

Q. I think that you said you saw the light with two of Korter's shingles, did you not?

A. Yes, sir.

Q. I assume you have read the Korter patent and the claims, Mr. Bergman, have you?

A. Yes, sir. [195]

Mr. Kolisch: Your Honor, this witness was not examined on the patent. He was examined on the structure.

Mr. Brown: As I understand, this witness, your Honor, was put on the stand to show that his shingle did not infringe the Korter patent. I believe that was the purpose of putting this witness on, and I

(Testimony of Harry X. Bergman.)

would like to see wherein he thinks he did not infringe the Korter patent.

The Court: I understand now that he is not being offered as an expert, and that this is simply on structure. You may cross examine on structure.

The Witness: I would like to answer the question.

Mr. Brown: Q. Is it not true, Mr. Bergman, that you have this so-called S-interlocking joint along the top and the bottom edges of your shingle?

A. No, sir; we don't.

Q. And is it not true, sir, that you have curved outer edge portions for interlocking the shingle with laterally adjacent shingles at the top and lower edge portions?

A. Well, if you wish to be technical, these are not interlocking. These are hooked together in a very loose manner, allowing for expansion and contraction. These are not interlocking, as you would call this other. Would you call this interlocking?

The Court: You are supposed to answer the questions and not ask them. [196]

The Witness: Excuse me.

Mr. Brown: Q. Are you trying to tell the Court, then, Mr. Bergman, that you have loose shingles with your lock when they are put together?

A. They will not lock, sir.

Q. Then are they watertight when they are put together?

A. They are watertight. Yes, they are watertight.

(Testimony of Harry X. Bergman.)

Q. Do you agree, Mr. Bergman, that you do have a half-round portion down at the bottom of your shingle one side of which is tangent to the plane of the shingle? A. Beg pardon, sir?

Mr. Brown: Would you read the question, please.

(Last question read.)

A. Tangent to the plane? Will you explain that, please? Will you explain what you mean by your question?

Q. Yes. By tangent, Mr. Bergman, we mean round like this, sir, and then this is tangent (illustrating). You see that is a continuation of it. It is straight and then it rounds. A. Yes, sir.

Q. You have that. I believe you have also admitted, sir, that you do have a gutter at the bottom of your shingle, do you not? A. Yes, sir.

Q. You also have a drain slot there, do you not, in the gutter? [197]

A. Well, I have heard you call it a bleeder. I will call it a bleeder, or if you want to call it a drain slot you can. It is the edge of a seam.

Q. But you called it a drain slot, did you not, in the testimony that you gave here a short time ago?

A. Yes, I did. At that time I wasn't acquainted with the technical point, what you were calling that. Now I understand it is called a bleeder joint.

Q. You have a fastening tab, do you not, on your shingle? A. Yes, sir.

Q. Did I understand you to testify, sir, that any water condensation that appears on the back of

(Testimony of Harry X. Bergman.)

your shingle would run down into the gutter and then out through the drain slot at the end of the gutter?

A. Well, if any forms—it is very likely very little would form—it would come out the end of the gutter.

Mr. Brown: That is all.

Mr. Kolisch: That is all.

(Witness excused.)

Mr. Kolisch: Defendants rest. [198]

Mr. Brown: May we recall Mr. Richardson in rebuttal, your Honor?

The Court: Just a moment. I understand that you asked this morning for a continuance after the defendants' case in order to meet some of these factors. Do you want that continuance now?

Mr. Bischoff: Your Honor, may I have a moment to confer with Counsel about that?

The Court: Yes. I will have to say that I have an engagement at 4:00 o'clock, so anything that happens will have to go over until tomorrow morning anyhow.

Mr. Bischoff: May I answer your Honor's inquiry in the morning?

The Court: Yes.

(Thereupon an adjournment was taken in the above matter until Wednesday, March 31, 1954, at 10:00 a.m.) [199]

Portland, Oregon, March 31, 1954, Court reconvened, pursuant to adjournment, and proceedings herein were resumed as follows:

The Court: You may proceed.

Mr. Bischoff: May it please the Court, in answer to the inquiry your Honor made at the conclusion of yesterday's session of court, I wish to advise that the plaintiff will not ask for a continuance.

The Court: All right. Proceed.

Mr. Brown: May it please the Court, we will call Max Richardson in rebuttal.

MAX C. RICHARDSON

was recalled as a witness in behalf of Plaintiff, in rebuttal, and was further examined and testified as follows:

Direct Examination

Mr. Brown: Your Honor, the other side presented ten patents which they felt had some anticipatory effect on the Korter patent, but during their testimony they referred to only four. We think, however, it is incumbent to go over all ten in a brief manner just to complete the picture.

Q. Mr. Richardson, will you please tell the Court just in general what the object of the Korter invention was. [200]

A. The main object of this invention is to devise a metal shingle of interlocking type in which provision is made to prevent leakage from heavy runoff, or condensation, or both.

Q. Will you refer to the claim of the Korter patent and tell me whether or not that claim is a combination claim. A. Yes, sir.

Q. And by a combination claim what do you mean?

(Testimony of Max C. Richardson.)

A. I mean a claim which includes as a requirement of a complete structure more than one element, all of the elements included being listed in the claim.

Q. Now, in that combination of elements do those elements cooperate with one another?

A. Yes, sir.

Q. And do they give one a new and unexpected result?

A. Yes, sir.

Q. That is, to be a true combination?

A. That is right.

Q. Now, looking at Korter's claim, where you have corrugations in said shingle, and later those corrugations are mentioned as facing the reversely turned top edge portion of the lower adjacent shingle from the inner face of the shingle, do those corrugations have a function which cooperates with the rest of the elements of that claim?

A. Yes, sir.

Q. And what is that function, sir? [201]

A. That function is to hold the shingle over its major area away from the roof, and to hold the gutter at the lower end of the shingle open so that the water of condensation can run down the underside of the gutter free of the under-roof structure and be collected in the gutter.

Q. Later in the claim it mentions the top and bottom edge portions of the shingle being reversely turned on opposite faces thereof, each of said top and bottom turned edge portions comprising a half-round portion, one side of which is tangent to the

(Testimony of Max C. Richardson.)

plane of the shingle and the other side of which terminates in a reversely curved portion to form a gutter. What is the cooperation of that element with respect to these ridges that you have mentioned?

A. The ridges space the shingle from the roof so that the water of condensation will be prevented from being absorbed by the roof structure and the water will run down the underside of the shingle. And this gutter is for the purpose of giving that water a place to be safely drained to.

Q. Later it mentions a drain slot disposed in the gutter of the shingle. How does the drain slot cooperate with the other elements of the claim, and particularly with the ridges that you mentioned and also the gutter that you have previously referred to?

Mr. Kolish: Your Honor, the defendants object to this line of questioning. In the defendants' case we didn't put [202] in anything concerning the combination and aggregation of elements in the Korter patent. We don't believe that this is proper rebuttal.

The Court: As I understand it, you attacked its validity. You put in testimony attacking its validity.

Mr. Kolisch: Yes, sir.

The Court: Why isn't it proper rebuttal? It is to escape the claims of prior art.

Mr. Kolisch: If he was discussing prior art, that is something else. He is discussing the question of a combination of elements. Now it is perfectly all right with me. I merely call this to the Court's attention.

(Testimony of Max C. Richardson.)

The Court: Of course, the elements of prior art are present in a combination patent.

Mr. Kolisch: Yes, certainly.

The Court: So he is trying to show that it is a real combination as compared with a loosely assorted aggregation of prior art, which might not result in a functional combination.

Mr. Kolisch: Yes, I understand.

The Court: I take it that is the purpose of his line of questioning. All right.

Mr. Brown: Q. These elements that I have referred to, Mr. Richardson, do they or do they not cooperate together, sir, in order to perform that last function, to-wit, so that [203] moisture can travel along the inner face of the shingle and into said gutter?

A. Yes, sir; they do. However, the drain slot itself is not involved in that last statement you made. It is involved in draining the gutter. It is not possible, of course, to have that gutter large enough to hold any admitted quantity of water. It has to be disposed of before it does damage to the roof, and the gutter is a receiver for the water of condensation, and there has to be means for getting the water of condensation into the gutter and means for getting it out of the gutter. And the structure shown in the patent, the ridges 12, spacing as they do the shingle from the roof partially, and spacing the underside of the shingle from the rolled lower edge of the gutter, keep the gutter open for the admission of condensation, and then there is a drain

(Testimony of Max C. Richardson.)

slot disposed in the gutter for the disposal of that water of condensation. It is a continuously working process.

Q. Will you now refer to the Lewando patent, No. 124,963, which is Defendants' Exhibit 32.

A. I have it here.

Q. Are you familiar with that patent, Mr. Richardson? A. Yes, sir.

Q. Will you kindly briefly summarize just the disclosure of that patent, please.

A. I will try to keep within bounds and not make the story [204] too long, in so far as the patent could effect or be prior art on the present Korter patent. Now in the Lewando patent old art is shown of laying a shingle flat on a roof and sealing the adjacent shingles together so that the shingles after installation become a continuous hermetically sealed metal sheathe over the entire roof, thus allowing no air circulation under the roof, and thus not creating the problem of water condensation. So that the Lewando patent could teach nothing in the art of an improved shingle. It might be of interest there to quote in the second column of the old Lewando patent, the patent being so old that the lines are not numbered. In the middle of the second column it shows how the plates are locked together on the roof, and then it says:

“When this is done and all the joints carefully filled with cement, the lapels m-k-l may be nailed down over the point of junction of all the joints.

(Testimony of Max C. Richardson.)

These operations are to be continued until the whole roof is covered.”

The full intent and the only possible way it could be operated is as a continuous metal roof with all joints sealed. It would not apply to the present type of shingle or purpose.

Q. Do you find anything in this patent, sir, express or implied that has to do with the water of condensation or the [205] elimination of that water?

A. Nothing is said. It could only be implied by the natural condition, that without circulation of new air carrying moisture to the underside of the roof there could be no moisture brought in to the underside of the roof, and that since the sheathing is as finished hermetically sealed there could be no moisture.

Q. Are these shingles what is called a diamond-shape? A. Yes, they are.

Q. Do these shingles, sir, have top and bottom and lateral edges when they are placed in position?

A. Not definitely, no. They have four sides, but they are all diagonal sides. Any of the sides could be called a top or a side or a bottom or a side, but they have no definite top or side edges.

Q. Do you find any gutter or any drain slot either in the drawing or implied from the specifications?

A. No. In a diamond-shaped shingle of this type you really don't have gutters. You have downspouts, if they are open. The lead is vertically down to

(Testimony of Max C. Richardson.)

what is substantially side-confining seams. They don't have what you would call a gutter, which is considered ordinarily to be of a horizontal nature.

Q. Will you now kindly refer to Lewando Patent 140,928, which is Defendants' Exhibit 33.

A. Yes, sir. [206]

Q. Are you familiar with that patent, sir?

A. Yes, sir.

Q. Will you please tell the Court in a summary way just what that patent discloses.

Q. It is an improvement over the previously mentioned patent in so far as the previously mentioned patent had the nails exposed at the lower tab corner, and this patent has the improvement of forming a lower corner so that it can be turned under and cover the nails of the lower tab corner.

Q. Do you find anything express or implied in that patent dealing with the water of condensation and getting rid of that water, sir?

A. This patent recites substantially the same conditions as the other one, and repeats the requirement of joints filled with cement.

Q. Do you find in this Lewando patent or the other one that you referred to any ridges that extend downwardly from the inner surface of the shingle? A. No, sir.

Q. Will you please refer now to the Slaughter patent, No. 220,181, which is Defendants' Exhibit 35. A. Yes, sir.

Q. Are you familiar with that particular patent, Mr. Richardson? A. Yes, sir. [207]

(Testimony of Max C. Richardson.)

Q. Will you briefly summarize that patent for the Court.

A. The principal effort in making this patent has been, apparently, to make a cheap shingle with very little waste. In doing that the method of construction is simple and the method of installation is simple. In place of a nailing tab they have just made another overturned upper interlocking joint so that the joint can be nailed in the fold and still have an extension out to engage the next upper shingle. That is the feature of the patent.

Q. Is there any mention therein of the water of condensation or getting rid of that water, sir?

A. I don't remember that there is.

Q. Are there any corrugations or ridges on the inner face of the shingle? A. No, sir.

Q. Any drain slots or gutters?

A. No, sir.

Q. Is it designed to lay flat on the roof?

A. Yes, sir.

Q. Where a shingle is designed to lay flat on a roof, is there any opportunity for the water of condensation to collect?

A. If it is properly designed to lay flat on the roof, air laden with moisture would be prevented from circulating under it. It is entirely possible to lay a shingle flat on the roof and not protect it properly and have moisture form. [208]

Q. Kindly refer to the Cusack Patent 303,921. Defendants' Exhibit 36. A. Yes, sir.

Q. Are you familiar with that patent, sir?

(Testimony of Max C. Richardson.)

A. Yes, sir.

Q. Please explain that, briefly.

A. The essential object of the invention is to produce a roof which shall be watertight and externally fireproof, and which was adapted to be readily applied to a roof. The object, apparently, is to overcome the listed difficulties with previous shingles—"but in all such instances known to me either the blank has been cut to greatly waste the material or the interlocking parts have been so formed as to render the completed roof liable to leak." So his object was to make a watertight roof out of the simplest structure with the least waste possible.

Q. When you have a watertight roof, does such a roof permit the exclusion of any water that might be underneath the roof?

A. A successful operating watertight roof would not allow circulation in either direction through the joints.

Q. Do you find anything concerning the condensation of water in the Cusack patent or any means for eliminating the same, sir?

A. No. As a matter of fact, the patent definitely brags about the forms with all corners overlapping and piled tightly [209] together so that there can be no exchange of moisture from the inside to the outside.

Q. Would you call the Cusack shingle a diamond-shaped shingle or not, sir?

A. Yes, I would.

(Testimony of Max C. Richardson.)

Q. In that event does it have a top, a bottom and sides, also, a top and a bottom and lateral sides as it is laid?

A. No, not with any definition.

Q. Are there any corrugations from the inside of the shingle, sir, extending downwardly?

A. No, sir.

Q. Is there any provision for raising the shingle from the roof at all in that case?

A. No, sir; except by a pile-up at the corner, which could only be the thickness of the piled-up metal. In Figure 5 there is shown in an exaggerated way a very thick pile-up of metal. But of course that is only for illustration. The pile-up would be very small, because if you had five or six thicknesses of 20/1000ths-gauge metal you would only have a tenth of an inch when you got through, and it would be only a small pile-up, although from the way Figure 5 looks it looks as though it might be an inch or so. But that pile-up is at the corner only, and from the way the shingle is held to the roof that must immediately slope right down to the roof.

Q. Kindly refer now to the Crawford patent, 553,514, Defendants' [210] Exhibit 30.

A. Yes, sir.

Q. Are you familiar with that patent, sir?

A. Yes, sir.

Q. Will you please summarize the disclosure of that patent for the Court.

A. The object of the patent is "an extremely

(Testimony of Max C. Richardson.)
simple and cheaply-constructed shingle which may be readily secured to the roof, and which, when the shingles are fastened together, will be perfectly waterproof." The shingle is a flat shingle and is intended—at least, with nothing to prevent it laying flat on the roof. The intent is to make the seams such that they are hermetically sealed, and the method of doing that is: "all the folded edges fastened together are hammered down, so as to be substantially flat and perfectly waterproof." Now they could be hammered down so that they were not waterproof, but the patent says that they are hammered down so as to be substantially flat and perfectly waterproof. That is what the patent teaches.

Q. In your opinion did the demonstration that was put on the other day, sir, in connection with this Crawford patent represent a true facsimile of the Crawford shingles as used on a roof?

A. It could not have been, no.

Q. Why not, sir? [211]

A. Well, because they were not assembled. The Crawford shingle is not a completed shingle until it is laid in its usefully employed position. The Crawford shingle is a formed shingle ready to be finished as it is shown here.

Q. Then it was not in the finished state in the demonstration?

A. It is not a Crawford shingle until it is applied to a roof in the way that it is intended to function.

Q. Would there be any gutters at all in the

(Testimony of Max C. Richardson.)

Crawford shingle, sir, when they are hammered down flat? A. Of course not.

Q. Do you find any corrugations or ridges, sir, in the Crawford shingle that extend downwardly from the inner face of the shingle?

A. No, sir.

Q. Are there any drain slots in the Crawford shingle as it is finally finished?

A. No, sir.

Q. Will you kindly refer to the Clawson patent, 1,026,202, sir, Defendants' Exhibit 34. Are you familiar with that patent? A. Yes, sir.

Q. Will you kindly summarize for the Court, please.

A. This is a diamond-shaped patent. The principal element of novelty is a small dam across the base of the tab at the upper portion to prevent the rain driving in under the tab. [212] And the patent is a perfectly flat shingle, undoubtedly intended to lay flat on the roof, and therefore as a requirement of that type of operation, if it is to be successful, the joints would be intended to be tight. Nothing is shown in the specifications or drawings which would indicate that the joints were anything but straight folded joints interlocked and tight together.

Q. Do you find any corrugations or ridges in the Clawson shingle, sir?

A. No, sir. The only embossing of the flat tab is the dam 8, which is numbered in Figures 1 and 3. Wait a minute. It is apparently numbered 9 by

(Testimony of Max C. Richardson.)

mistake in Figure 2, since Figure 2 has two reference numbers 9.

Q. Is there any turned bottom portion of the Clawson shingle? A. No, sir.

Q. Will you please explain just what is meant by a bottom portion as described in the Korter patent?

A. The bottom portion is that area of the shingle along the lower horizontal edge.

Q. Is there any mention of the condensation of water or the elimination of the same, sir?

A. In Clawson?

Q. Yes. A. No, sir.

Q. Is this shingle a rectangular shingle as defined by the [213] Korter patent?

A. It could be, of course. It is a rectangular shingle, but not as defined by the Korter patent; no, sir. There are two shapes, Figure 2 and Figure 5. One is rectangular and one is diamond. But of course it is a diagonally laid shingle, and it could not be a rectangular shingle as the Korter patent.

Q. Please now refer to the Pruden patent, 1,406,757, Defendants' Exhibit 40.

A. Yes, sir.

Q. Are you familiar with that patent, sir?

A. Somewhat, yes.

Q. Will you please summarize the disclosure of that patent.

A. The disclosure of that patent is a fragmentary disclosure of an apparently prefabricated metal

(Testimony of Max C. Richardson.)

house structure. It has no reference to shingles whatsoever.

Q. Will you explain the function of the perforations 17 in Figure 2 of that patent.

A. Yes. The function is very nicely apparent from Figure 1 of that patent. In order to make the assembly of this prefabricated house as easy as possible they have element 25 which with the element fastened and with element 11 is hung over the side frame and that holds the roof corrugated sheathing down onto the structure. And since they have that element and it is made of bent-up sheet steel, and since it [214] dams or forms an eaves trough for each one of the individual grooves in the corrugated roof, they merely cut it open so as to let the water go on through. That is all for water from the outside which would normally come onto the roof, whether it was rainwater or melting snow, or anything of that kind.

Q. Does this patent have anything to do, sir, with the water of condensation and how to eliminate it?

A. I would not like to be facetious about the matter, but this patent shows that they will have a lot of trouble eventually, but it doesn't say anything about handling it or how to get rid of it.

Q. Then the perforations 17 do not handle any water of condensation, sir?

A. No water from the underside of the roof; no, sir.

Q. Please now refer to the Belding Patent

(Testimony of Max C. Richardson.)

1,971,517, Defendants' Exhibit 37. Are you familiar with that patent, sir? A. Yes, sir.

Q. Will you summarize the disclosure of that patent.

A. That patent covers a roof construction with a subcombination of a metallic sheathing for a clapboard, and they have seen fit to call this metallic sheathing for a clapboard a shingle. That patent is a very interesting patent for the reason that in order to construct a house of the Belding construction the clapboards of which the roof is made are laid [215] horizontally on the roof end to end, and in horizontal rows, overlapping vertically. And each clapboard row as it is laid is nailed at the top and left free at the bottom, and the succeeding clapboard above it is nailed at its top, and its lowest free end overlaps the nailed end of the one underneath. Then when they get the house covered with the clapboard, which is part of the invention, they take and start from the top and go back down this roof by nailing the upper end of these individual board sheaths to the structure above or at the upper end of the clapboard—rather, before they do that there is a hooked element at the lower end of the shingle or sheathe, metal sheathe, and it is drawn up under the free end of the clapboard and then the top end is nailed.

Q. Will you point that particular feature out to his Honor.

A. Your Honor, these are the clapboards which are part of the construction, and as they are laid

(Testimony of Max C. Richardson.)

from the bottom up overlapping they are nailed at this point, that being a nail through the board only. Then after they have got all of those boards on the roof they start back down and take the top shingle and hook it under the free end of this clapboard, assuming that the top has been held there by a ridgepole, or some other way, and then the protruding end of the shingle is nailed here. The shingle is used to hold the clapboard onto the roof as well as to shield the roof. Then the next shingle is brought in, hooked under here, and the tongue-and-groove [216] joint is shoved in under this one, and then this one is nailed down here to this one. That is, this roof is made by laying clapboards up the roof and coming back with the sheathing element for the clapboards back down the roof. The horizontal joints are tongue-and-groove joints.

In the matter of condensation this is a very interesting patent, because it brings in the problems indirectly which must be solved. The problem of condensation—and it is a problem—was newly brought to the field in a critical way when aluminum was to be used for shingles for the reason that aluminum, at the time the shingles were first used—and Mr. Korter first used shingles—aluminum was not successfully welded in the field. Aluminum required special welding equipment and was not successfully welded in an economic way so that it could be used for soldering or welding roof joints together. Therefore, to use aluminum for a roof it was necessary to make a shingle which nec-

(Testimony of Max C. Richardson.)

essarily you could not very well make airtight and entirely free of air which would carry moisture to the underside of the roof.

Then in order to get around that problem—Mr. Korter did it in his own way, but this Belding patent is extremely interesting because you look over here, and the assignor is the Aluminum Company of America. They would undoubtedly have been interested in making aluminum shingles as a commercial item. But their way of doing this was not to [217] accumulate moisture and drain it in a simple manner, as Mr. Korter did. Their way was to insulate the metal sheathing in such a way that this insulating clapboard was tight against the shingle except for a small upward embossing of the underside which they hoped would circulate air. But they don't go to the ends of the board. Therefore, the air circulation would only be by diffusion and probably would not be successful.

The parts 4, if your Honor would look, these spaces where the board does not come clear in to the end, are not gutters. They are air ducts put there specifically for the purpose of attempting to dry the underside of those shingles by circulating air. Now, they have some opportunity of working for this reason: That since the roof itself is insulated—and that is definitely an insulating board, that clapboard 17—the heat from the underside is more or less barriered by that insulator from the underside of the shingle so that the shingle would be substantially the same temperature on both sides,

(Testimony of Max C. Richardson.)

and any air that got up there would be substantially the temperature of the outside air. So that the air that got up there would not drop moisture because it would not hit a chilled surface. It is already at the temperature of that surface, and if it is not already 100 per cent humid it will take up some moisture with it. And with a structure which would prevent condensation at a high rate, this air duct [218] 4 plus the incomplete circulation which would be accomplished through their little corrugations or embossed pattern, which they call 11—no, wait a minute. That is not it. No, their embossing pattern lines are called 13, 14, 15 and 16, all coming down to the same level on the underside of the shingle. And if you will notice in the patent picture, particularly in Figure 1 of that patent, very few of those are open to the edge of the shingle. You will notice that, as the ends are curled around, showing that they come down to the undersurface of the shingle, very few are open. It might be that the ones along the bottom would be open in spite of the apparent draftsmanship in the drawing, but certainly those farther up have no way of getting air from that air duct 4 into them.

It is an expression of an intent or a wish, but not necessarily of the completion of a result.

Q. Does the Belding patent, sir, show any reversely turned interlocking joints?

A. They do on the side edges.

Q. But not on the top and bottom edges, sir?

(Testimony of Max C. Richardson.)

A. Not on the top and bottom edges. It is a tongue-and-groove joint.

Q. Do these corrugation ridges 13, 14, 15 and 16, serve at all, sir, to space the innerface of the shingle from the curved portion of a lower shingle?

A. What is the innerface of a shingle would depend on the relative areas of the parts contacting and the parts not. In my opinion, in looking at this drawing, the lower edges of all of those ridges are the innerface of the shingle. You will notice that as you look at the pattern in Figure 1 of the embossing. The embossing comes out to round edges, showing that they limit themselves right to that lower face, where all of those so-called ridges are the lower face of the shingle.

Q. Does Belding provide a gutter at all, sir, along the bottom edge?

A. Belding provides an air duct 4, and specifically says that he has no gutter problem.

Q. Is there shown any drain slot in the Belding patent? A. No, sir.

Q. Will you now refer to the Miller Patent 2,243,256, Defendants' Exhibit 31.

A. Yes, sir.

Q. Are you familiar with that patent, sir?

A. Yes, sir.

Q. Will you kindly summarize the disclosure of that patent.

A. We have been talking about diamond-shaped or diagonal shingles and rectangular shingles. Here

(Testimony of Max C. Richardson.)

we have a hybrid shingle. Your Honor, if this shingle, which has tapered edges, were cut off at the two ends and the two ends put together, it [220] would be a diagonal shingle. And all of the structure of that shingle has been made and has been adapted to use like diagonal shingles are used.

These are upward indentations, but the sides and the hooking of these shingles is exactly like the diagonal-type shingle. If those two ends were closed together, you would see that the formation of the shingle is a diagonal structure. The shingle requires that these side edges be tapered or they could not be interlocked together on the roof. It is not a rectangular shingle. Its very structure is such that it could not be interlocked if it were rectangular.

Q. Is there anything stated in the Miller patent, Mr. Richardson, in connection with the water of condensation and the manner of ridding the same, sir?

A. I don't remember anything at all of that kind. However, like all of the diagonal shingles and the makers of diagonal shingles, Miller was concerned with his vertical joint or getting the water down the roof. In the diagonal shingle you come down to a corner and then you go to another corner, and so on, and in place of gutters you have downspouts. And Miller here has been very careful to make a shingle which has the vertical-junction features of the diagonal shingle, and he has spread that into an area here, making the shingle longer, and entirely neglecting his broader difficulties when

(Testimony of Max C. Richardson.)

he tries to make that to cover more space than a horizontal [221] shingle would cover.

He says here: "The nails which hold the units to the roof are all covered by the shingles and the interlocking connections between the shingles are so formed as to permit the free drainage of rain-water that may be driven into such connections." He is particularly interested in water that will be driven into these side seams, but nothing is said about any horizontal drainage. That is, as I remember this.

And in Lines 12 and 13, or thereabouts, the definite sloping nature or tapering side edges is specified, as well as in referring to his drawings.

It is interesting to note that the size of the shingle—he says the blank is rectangular in form, and a suitable size would be 50 inches long and 18 inches in width. Such length and widths would be approximately three times as long and twice as tall as the Korter shingle. That is, it is a panel and not a shingle. It would include an area of, say, six of Korter's shingles. However, size is not necessarily a specification of the patent.

The laying of these shingles is done exactly as you would lay the diagonal shingles, in so far as there a layer of alternate shingles is laid, a horizontal row of alternate shingles, and then you step up half the width of the shingle and lay alternate shingles back in. And since he has attempted to make this hybrid shingle he got himself into a jam and went [222] out and had a lot of special nails

(Testimony of Max C. Richardson.)

made, which became part of his patent, in order to hold this thing onto the roof.

Q. Yes. Will you describe those nails to the Court, please? A. The nail is shown——

Q. Would you like to stand up and show it to his Honor, please.

The Court: I am not interested in his nails. What have I got to do with that?

Mr. Brown: Q. Mr. Richardson, does Miller have any ridges that extend downwardly from the inner face of the shingle? A. No, sir.

Q. Where is that most clearly shown in the patent, sir, in which figure?

A. Figures 7 and 8 are cross-sections through Figure 6, along the center of each of the upper and lower panels of the shingle, and show definitely that the embossing is upward.

Q. Does the Miller patent show any spacing means between the innerface of the shingle and the upper surface of the next lower adjacent shingle?

A. Not integral with the shingle.

Q. Does the Miller patent, sir, show a half-round portion at the bottom edge which terminates in a reversely curved portion?

A. In that respect you would have to rely on some rather sketchy draftmanship. In Figure 3 the bottom edge 11 would [223] appear to have that feature.

Q. Does Miller show a drain slot disposed in the gutter of the shingle? A. No, sir.

(Testimony of Max C. Richardson.)

Q. I am not sure whether you told us—I think you did, but we will consider it repetition—as to whether Miller makes any reference whatsoever, sir, to water on the underside of the shingle caused, for example, by condensation. Does Miller do that?

A. No, sir; he does not.

Q. Will you now refer to the British patent, 399, Defendants' Exhibit 38. Are you familiar with that patent, sir?

A. Yes, sir.

Q. Will you briefly summarize that patent.

A. That is perhaps one of the most elemental shingles that could be made. It is made of a single flat sheet with no embossing whatsoever. It is a diagonal shingle. The opposite edges are oppositely overturned, and it has a tab secured to the back of the shingle at the upper corner which is used for nailing to the roof. And, if desired, other clips can be used to nail along the upper edges of the shingle, the additional clips, however, being no permanent part of the shingle. The joints are very simple, folded joints, except that de Sincay was concerned about the moisture driven in from the outside by the rain and wind and put a trap in the downspouts, and [224] particularly made his vertical lines of water travel the shingle down the roof for the purpose of preventing the exchange of moisture from the inside to the outside except at the lower corner, which he left open to drain these gutters from water that was brought in from the outside.

Q. Does de Sincay make any mention whatsoever, express or implied, sir, of getting rid of the

(Testimony of Max C. Richardson.)

water of condensation on the inside or innerface of the shingle? A. No, sir.

Q. In that case would you have any water of condensation form on the innerface of the de Sincay shingle?

A. I suspect you would, for the reason that it is not hermetically sealed. The opening K on the underside would allow the circulation of air and would allow moisture to be condensed under it. However, that water could not drain back because with the shingle lying on the roof there isn't room enough for a drop of water between the shingle and the roof, and the water would be in contact with the roof. If the roof itself were at all absorbent the water would be absorbed or adsorbed into the roof.

Q. Does de Sincay show or suggest the use of corrugations or ridges, sir? A. No, sir.

Q. Does it disclose a turned bottom portion forming a gutter?

A. These diagonal shingles have no gutters. They have downspouts [225] along the side edges.

Q. Does de Sincay have a drain slot like that in a gutter?

A. They have drain slots located at the junction point of the two side gutters as they meet at the bottom of the diagonal shingle.

Q. Is de Sincay's shingle a rectangular form of shingle as defined by Korter's claim?

A. Not as defined by Korter's claim; no, sir.

Q. Will you kindly at this time explain what

Testimony of Max C. Richardson.)

ou mean by a rectangular shingle as defined by Korter's claim.

A. It must necessarily be defined in Korter's claim, and Korter's claim as shown here shows that the corrugations are spaced laterally of the shingle, the lateral edges of the shingle being reversely turned—that is the lateral edges; not the top corner edges—providing curved outer edge portions for locking the shingle with laterally adjacent shingles—not corner adjacent but laterally adjacent shingles. And the very wording of the claim together, of course, with the very plain specification and drawing shows that it must be a rectangular shingle laid with the bottom and top edges horizontal.

Q. Now, in discussing these patents I think, as I recall, sir, it was only in connection with Belding that you mentioned any suggestion in the patent regarding water condensation. Am I correct in that statement, sir?

A. That is the only one I remember. [226]

Q. Now, in your review of all of these patents, the ten of them, sir, do you find the various elements of the Korter claim in combination, including an aluminum shingle of rectangular shape, corrugations forming ridges on the innerface of the shingle, the lateral edges of the shingle being reversely turned on opposite faces of said shingle, to provide curved outer edge portions for interlocking the shingle with laterally adjacent shingles, the top and bottom edge portions of the shingle being reversely turned on opposite faces thereof.

(Testimony of Max C. Richardson.)

each of said top and bottom turned edge portions comprising a half-round portion, one side of which is tangent to the plane of the shingle and the other side of which terminates in a reversely curved portion? Do you find that in any of the patents, sir? A. No, sir.

Q. Do you find in any of the patents that in combination with a gutter and also with a fastening tab, a drain slot, and also in which those corrugation ridges serve to space the innerface of the shingle from the next lower adjacent shingle? Did you find that, sir? A. No, sir.

Mr. Brown: Will Mr. Price give the witness Defendants' Exhibit 43.

Q. Mr. Witness, while no specific testimony was adduced in connection with those two pieces of felt, I understand, sir, [227] that in the case of Mr. Bergman's shingles those two pieces of felt are put under his shingle. I would like to ask you, first of all, will you examine that felt and tell us whether or not it is absorbent of water.

A. Well, I can say it is probably not. I couldn't say by examining the felt that it is not, but I can say that it is probably not from its feel and appearance and its use.

Q. In other words, then, it sheds water from your casual inspection of it, sir?

A. Yes, sir.

Q. I believe you have testified before that in Mr. Bergman's shingle we have ridges going down laterally of the shingle and also that those ridges serve

(Testimony of Max C. Richardson.)

to space the inner surface of the shingle from the top surface of the scroll of the next adjacent shingle. Did you make that statement, sir?

A. Yes, sir.

Q. If those two pieces of felt were placed under Mr. Bergman's shingle, would that felt serve to close up that space that you would normally have where Mr. Bergman's shingle would hit the roof at one edge but would be set upward like that on top of the scroll of the next adjacent shingle or not?

A. This would have no appreciable effect on the space.

Q. Do you know, sir, as to the reason why felt of that character is used in connection with aluminum shingles?

A. It has its usual uses of a vapor membrane or diaphragm or [228] noise-softening or retarding cover, but it is especially required—that is, some sort of water-impervious and electrical insulation is required between the aluminum shingle and any galvanized or steel nails which might be in the under-roof structure to prevent electrolysis and eating holes in the roof at that point.

Mr. Brown: Will you kindly hand the witness two shingles of Plaintiff's Exhibit 3.

Q. Those are the Bergman shingles, Mr. Richardson. Will you kindly tell us, sir, referring to that drain slot in the shingles, is that merely a bleeder opening or can you tell from what you see as to whether it has been deliberately made as a drain

(Testimony of Max C. Richardson.)

slot for draining the gutter of the water of condensation?

A. There are two features—of course, I could not tell what Mr. Bergman or anyone else was thinking about when they did this thing, but there are two elements of the structure of this shingle that would lead anyone to suspect it was made for the purpose of making a drain slot which would function in an equivalent manner to the Korter drain slot.

The first item of suspicion is the cutting back of this corner of the shingles so much farther than necessary for the interlock and actually clipping the corners, the exposed corners, off the shingle.

The next point of assurance that that gutter at the [229] end of the shingle, or the drain slot at the end of the shingle, will stay open is the complete extension of the end of the tab at this point. Now in the Korter shingle as now made this point is cut away to a point where the two shingles can come up to the same horizontal line. Since Korter has placed his slot disposed in the gutter in a position which can allow his shingle to still have that uniform horizontal line, he hasn't had the problem. But when this shingle was cut and the drain was allowed to be the end and corner of this slot, then it was necessary to hold this shingle down below the upper end of this shingle in order that there will always be a gap under the shingle in order to have a functioning drain slot.

Mr. Brown: You may take the witness.

Testimony of Max C. Richardson.)

(Thereupon a recess was taken until 2:00 o'clock p.m. of the same day, at which time Court reconvened and proceedings herein were resumed as follows:) [230]

Afternoon Session, 2:00 p.m.

MAX C. RICHARDSON

witness produced in behalf of Plaintiff, in rebuttal, resumed the stand and was further examined and testified as follows:

Cross Examination

By Mr. Kolisch:

Q. Mr. Richardson, you read to the Court a portion from the Korter patent. Would you please take the patent and put it before you. You read the portion beginning in Column 1, Line 6, concerning the main object of the invention being to prevent leakage from heavy runoff, on condensation, or both. I call your attention to the same column, beginning with Line 18, where it is stated: "Figure 3 is a fragmentary perspective view of one corner of the shingle showing the drain slot which forms the basis of this invention." Would you say that the manner in which Mr. Korter accomplishes his object is by the provision of the drain slot?

A. The drain slot is one of the elements of Korter's improved combination.

Q. Does Mr. Korter in his specification talk

(Testimony of Max C. Richardson.)

anything about a combination of elements?

A. No. He explains his object, and the object requires the combination.

Q. He does not so state, though, does he?

A. No. [231]

Q. He merely says that the object is to take care of this drainage and then later he says that the drain slot is the basis of the invention.

A. Is one of the elements of the invention.

Q. Does he say one of the elements or does he say it is the basis? A. He says the basis.

Q. Would this statement lead you to believe that Mr. Korter, in fact, thought that he had invented a new element in the drain slot?

A. No. Mr. Korter intended, I think, from the patent to indicate that he had invented an improved shingle which would accomplish the object as stated, and that one of the elements of the improvement was the surety of being able to drain the gutter.

Q. Is the Korter shingle watertight?

A. Not as I would understand it, no.

Q. Does that mean that water from the outside can get in?

A. Possibly in small quantities.

Q. How would the water get in?

A. By being driven through the connection.

Q. Therefore, you could have leaks from this sort of shingle if there was a high wind such as to blow the water up underneath the shingle?

A. A leak is a matter of degree. If it would not cause difficulty [232] or a destructive influence on the house, it would not be a leak. If it were a leak

(Testimony of Max C. Richardson.)

which increased humidity, it would still be a leak, but it would not be a damaging leak and would not be ordinarily referred to as a leak.

Q. Whether it would damage or not would depend on how much water was blown in, wouldn't it?

A. That is right.

Q. And it would be possible in the Korter shingle for water to be blown in?

A. With sufficient pressure, yes.

Q. You referred to a new and unexpected result which flowed from the combination as you stated of the elements in the Korter patent. What is that new and unexpected result?

A. Draining the condensation from under the shingle to the outside to remove the moisture and to prevent damage to the house.

Q. Referring to the Crawford patent—do you have that before you? A. Yes, sir.

Q. Would water on the back of that shingle drain to the front?

A. You will have to be quite explicit in telling me at what stage of the development of the Korter shingle you are talking about.

Q. I am not talking about Korter.

A. I meant the Crawford shingle. At what stage? As I understand [233] the Crawford shingle, the shingle is completed in application and is definitely watertight after completion.

Q. All right. Is it possible to make a watertight seal by pounding two pieces of metal together tight?

A. Oh, yes.

(Testimony of Max C. Richardson.)

Q. The resiliency in the metal wouldn't have any effect, would it?

A. You would have to be fairly explicit as to what kind of metal.

Q. Let's take aluminum or sheetmetal.

A. Aluminum can very nicely be pounded together to be watertight.

Q. How about ordinary sheetmetal?

A. When you lid an ordinary can, it is not put together in any way except mechanically. It is put together with pressure, and pounding is repeated pressure.

Q. With reference to the Crawford shingle as it is shown in the drawing, looking at Figs. 2 and 3, does either of these figures show a structure where the corners are secured or pounded together so that water would not run out?

A. These figures?

Q. Yes.

A. No, they show the incomplete shingle.

Q. You mean the unassembled shingle?

A. That is right, the uninstalled shingle.

Q. Do you believe that if you laid these shingles on a roof—as [234] I understand it, the usual practice is to place some sort of a resilient felt pad underneath them—if you laid these on a roof and you pounded on them with a hammer, would you be likely to get a watertight seal?

A. Your understanding of what they had under this roof, as I see it, would have to be taken from the patent, and the patent definitely requires that it

(Testimony of Max C. Richardson.)

...e pounded watertight. Now I don't see anything in
...ne patent about what they have under the roof.
...they install this and pound it watertight.

Q. That would mean, then, that over the whole
...xpanse of roof they would have to be very careful
...o pound each portion? A. That is right.

Q. And if they happened to miss a portion what
...ould happen?

A. If the portion was large enough and if the
...orm was great enough, that portion would prob-
...bly leak.

Q. I am not talking about a leak from the out-
...de in. I am talking about water from the inside
...aking out.

A. Water from the inside would arrive there in
...whatever air circulated under it. If the moist air
...it a cold surface, it would condense on the cold
...urface. If the cold surface was flat down, as this
...hingle would be, on the roof, the water bubble
...ould be too large to pass through the small space
...etween the shingle and the roof, and the roof would
...e wetted.

Q. How do you know that the water bubble
...ould be too large?

A. Just from what I know of the physical
...cience of water [235] bubbles and of the duration
...f drip.

Q. Would you say if the shingles were not com-
...pletely pounded down as you have suggested, and
...here were some small space left between the ad-

(Testimony of Max C. Richardson.)

joining corners, that any water on the back there could not go through that passage?

A. The water on the back would not probably get to the passage. It would be used in wetting the roof.

Q. Suppose it got to the passage?

A. If the water got to the passage and in making this shingle the passage was big enough for the water to run through? If all of those things occurred, and it was set up so that gravity would act on the water, and the slot were big enough, the water would run out the slot.

Q. Are all of the elements shown in the Korter patent old? A. What is that?

Q. Are all of the elements claimed in the Korter patent old?

A. Are all of the elements enumerated in the claim of the Korter patent old?

Q. Yes. A. Not for their purposes.

Q. Are they old standing alone?

A. I don't believe so.

Q. What is new?

A. The standing rib on the underside of the shingle, the gutter purposely maintained by that rib— [236]

Q. Let's take up the first one.

Mr. Bischoff: Just let him finish, please.

Mr. Kolisch: I would like to take these up one at a time.

The Court: Never mind. You asked him a question. He has a right to answer it.

(Testimony of Max C. Richardson.)

Mr. Kolisch: All right. Proceed.

A. To repeat where I was interrupted, the new elements of the Korter patent are the standing ribs on the underside of the shingle and the use of those ribs in maintaining the openings to the gutter formed by the reversely turned underedge, and a positive provision of a drain slot of some shape in that gutter to assure the drainage of that slot. Those are all new elements in the art.

Q. Aside from their functionality, what these elements do, are these ribs new, or did ribs such as those exist before? Maybe not to perform the same function, but did those ribs exist?

A. Why, of course. They have ribbed metal for years.

Q. Did drain slots exist?

A. Drain slots in shingles?

Q. Yes.

A. I don't remember them, no. That is, I don't know. But I again want to repeat that any rib or any gutter or any drain slot is not combined in the Korter patent, but it is combined [237] in the way of the Korter patent, and that makes the improvement.

Q. You are now referring to the function of these elements in the Korter patent, are you not?

A. Practically speaking, that is the only criterion for a patent claim. They have to accomplish the result.

Q. Now, what was the change in the functions of these old elements? For instance, let's take those

(Testimony of Max C. Richardson.)

corrugations which you referred to first. What was the functional change brought about by Korter with respect to that?

A. The use of the rib in the Korter claim is self-evident. The use of the rib, if there was such a thing in some other patent or in some other place, I would like to have explained to me where it is so that I can examine what it is used for in order to explain the change of use.

Q. Are you familiar with corrugated roofing?

A. Yes.

Q. Does corrugated roofing—

A. Would you like to use the Pruden patent as a sample?

Q. Refer to the Pruden patent, if you will. I call your attention to Figure 2. A. Yes.

Q. Element 16. Are those corrugations similar to Korter's?

A. Would you mind helping me find element 16 on Figure 2?

Q. It is shown right in the middle underneath where it says [238] "Fig. 2." You will find right in the middle of the drawing element 16. There are three lines going from that number.

A. I am sorry. Would you like to point it out?

Q. I am sorry. I am looking at the Belding patent.

A. Well, that is different. The Pruden patent is the one that shows corrugated roofing.

Q. Will you refer to the Belding patent. Now I

Testimony of Max C. Richardson.)

all your attention to element 16 in Figure 2 there.

A. Yes.

Q. Are those corrugations like those in the Korter patent?

A. Like those in the Korter patent?

Q. Yes. A. I wouldn't say so, no.

Q. Are they corrugations?

A. I wouldn't say so.

Q. What would you call them?

A. I would call them embossed figures.

Q. Embossed figures? A. Yes.

Q. What distinction do you make between embossed figures and corrugations?

A. A corrugation is, to my mind, a straight from end to end, and one corrugation has a uniformity with another corrugation. Here we have a bunch of miscellaneous bumps of various lengths, with straight sides, and various cross-sections, and I would [239] not say that those were corrugations.

Q. What would you say with respect to elements 13, 14 and 15?

A. They could well be called corrugations.

Q. Are those corrugations similar to Korter's?

A. No.

Q. Wherein are they structurally different?

A. Because they only come down to the face of the shingle, the underside of the shingle, and the lower part of them really is the underface of the shingle, and the other material is bumped up around them rather than being bumped down.

Q. What you mean to say is, then, that Korter's

(Testimony of Max C. Richardson.)

are slightly longer than these with respect to the shingle?

A. Korter's extend below the face of the shingle for the purpose carefully explained by Korter.

Q. Will you take the physical exhibit of the accused shingle, Plaintiff's Exhibit 3. Do the vertical embossings or corrugations on the accused shingle project beyond the turned top and bottom edges of the shingle?

A. They extend the full length of the shingle at the bottom, and at the top they go up under the turned edge but do not go clear to the top.

Q. With respect to the plane defined by the top of the shingle and the reversely turned bottom edge, do these embossings project beyond that plane and into that plane?

A. Let's be quite specific now. What plane are you talking [240] about?

Q. I am talking about the plane defined by the top of the shingle, the back top portion of the shingle.

A. Looking at the back of the shingle?

Q. Yes, looking at the back of the shingle, the back top portion of the shingle and the uppermost reversely turned portion of the bottom edge.

A. This is the bottom edge. Now what part of the bottom edge?

Q. The plane defined between these two points.

A. That is the plane of the shingle before being embossed. Is that what you mean?

Q. No. Perhaps I can get at it this way: If you

(Testimony of Max C. Richardson.)

will take a straightedge, or another shingle, and lay the straightedge, Mr. Richardson, transversely, such as I will show you——

A. Transversely across there?

Q. Yes. Now, this edge of the shingle defining the plane about which I am talking, if you take that edge and move it along the face of the accused shingle——

A. Like this?

Q. Yes. Now move it in the manner that I have done.

A. You mean an imaginary plane that is not in the shingle?

Q. Yes, that is right. That is an imaginary plane I am talking about.

A. Yes. [241]

Q. Now do these embossed portions reach that plane?

A. They couldn't. They are underneath the edge that you are talking about.

Q. Will you take the patented shingle, Plaintiff's Exhibit 2, and will you perform the same demonstration with respect to the patented shingle.

A. Yes.

Q. Do you observe any difference between the two, as between the patented and the accused shingles?

A. I observe a shingle in my hand here which has been handled a great deal and is somewhat mutilated. In some places it would and in some places it would not.

Mr. Kolisch: Will you hand Mr. Richardson all of the patented shingles. There are three more.

(Testimony of Max C. Richardson.)

Q. Will you check all of these shingles in a similar manner and let me know what you find.

A. I think you will see that all of them have been overhandled, and in some places they do and in some places they don't.

Q. Isn't it part of the teaching of the Korter patent that the bottom of these embossed portions rest on the roof? A. Only at the top end.

Q. Only at the top end? A. Yes.

Q. Now, certainly a portion of this shingle contacts whatever surface is beneath the shingle, doesn't it? [242]

A. Yes. We went into that the other day, if you will remember.

Q. If there were condensation there or water there, would that water tend to run onto whatever is contacting the shingle? A. Yes.

Q. So that wherever the shingle would be contacting the felt here the water would run onto the felt, would it not?

A. If there were felt contacting it, the water would run onto the felt.

Q. There would be felt contacting it, wouldn't there? A. I didn't say that.

Q. I beg your pardon?

A. You could set it up so it would.

Q. Doesn't Mr. Korter teach that in his patent?

A. No.

Q. Doesn't he state that these embossings rest on the material— A. On what material?

Q. On the material that is beneath the shingle?

(Testimony of Max C. Richardson.)

call your attention to Fig. 6 of the Korter patent.

A. Yes.

Q. What does that show with respect to element 12?

A. That shows element 12 rests on element 19.

Q. Yes. What is element 19?

A. Element 19 is the top side or upper roll of the next lower [243] shingle.

Q. That is at the bottom portion?

A. Yes.

Q. Now at the other end of element 12 isn't element 12 resting against whatever material is beneath the shingle?

A. A shingle being applied to a roof has to contact the roof somewhere, which it does at the top end. That is shown in Figure 4.

Q. So the portion where it is contacted is somewhere along the top?

A. That is right. However, the area of contact is a very small part of the total area of the shingle.

Q. Now, does the felt which is placed beneath the shingles lie perfectly flat, or does that tend to have irregularities and bumps in it?

A. It would depend on what it was laid on, it would depend on the temperature at which it was laid, and the temperature at the time you looked at it. It would depend on many things.

Q. Isn't it a fact that these felt pads are nailed to whatever is beneath them? A. Yes.

Q. And are these felt pads of flexible and resilient material?

(Testimony of Max C. Richardson.)

A. They are flexible; not necessarily resilient.

Q. Would the material tend to be lower in portions where it was nailed to the roof and higher in other portions? [244]

A. You mean there would be a depression at the nailhead?

Q. Yes. A. Very likely.

Q. Would it be possible that looking at an expanse of roof covered by this felt there would be buckling or irregularities or blisters in it? Could you as a practical matter lay it perfectly flat?

A. You could lay it flat within the area of a shingle. Remember, a shingle does not span the whole roof. A shingle spans its own length and width.

Q. Is it laid flat with respect to each shingle?

A. I wouldn't say in any particular case. We would have to examine that to find out.

Q. Do you know how the felt is applied to a roof? A. Yes.

Q. How is it applied to a roof?

A. It is nailed on, laid flat and nailed on.

Q. Isn't it laid on in rolls?

A. Sometimes.

Q. It is not applied section by section corresponding to a shingle?

A. It could be. You will use up the ends of your rolls, which are then short sections.

Q. But you start off by putting on a rather large section, don't you? [245]

A. You use the available paper; yes, sir.

(Testimony of Max C. Richardson.)

Q. Now, the prior art patents which you discussed and which are relied on by defendants, don't they all relate to the metal shingle art or to the roofing art?

A. Some do one and some do another.

Q. I beg your pardon?

A. Some do one and some do another.

Q. Would you say, then, that all of these patents were pertinent?

A. No. As a matter of fact, I would say, like the patent examiner said, that none of them finally were pertinent after they were examined.

Q. They all relate, at least, to the same art as the invention, do they not?

A. It depends on what division of the art you want to talk about and how wide those divisions are.

Q. Would you say any of them relate to any non-analogous art?

A. Oh, an analogous art. Yes, I think you would be right if you said an analogous art.

Q. With reference to the Lewando patents, you stated that these patents teach an airtight construction and that there would be no condensation behind these shingles. Is that correct, Mr. Richardson?

A. Yes, I believe said that.

Q. Did you mean to say that there was a vacuum provided [246] between the shingles and whatever their supporting surface was? A. A vacuum?

Q. Yes. A. No.

Q. There would be air there, would there not?

A. No. I will tell you: If you reduce the pres-

(Testimony of Max C. Richardson.)

sure, the atmosphere would push the shingle so tight that there would be no space there. You couldn't have a vacuum there.

Q. Is it your testimony, then, that there is no space in the Lewando patents?

A. That is the intent of the Lewando patents, yes, that there be no space.

Q. That there be no air space? A. Yes.

Q. And they would be laid absolutely flush against the roof?

A. That would be the intent, yes.

Q. Now, are the Lewando patents of the interlocking type? A. That is right.

Q. And where two of these shingles interlock, wouldn't the portion of the top shingle hold the other shingle away from the roof? A. Yes.

Q. Wouldn't that give you an air space?

A. We are talking of sizes again. Of course, if you want to [247] reduce things to micrometer measurements, and things of that nature, you can go to quite some extent. But, speaking practically, there is no air space.

Q. There wouldn't be any air space even though they are interlocked? A. Practically, no.

Q. Isn't it a fact that condensation will take place usually where there is no ventilation, and that if you have a shingle construction over something else, and you have provided for no ventilation for this space, however large or small it may be, there is a probability that with temperature changes you will have condensation?

(Testimony of Max C. Richardson.)

A. Again, you must talk about something definite. "Ventilation" is nothing definite used as a word as you said it. Condensation is due to the interchange of warm moisture-laden air next to a cold surface. If there is only one volume of air that meets a cold surface, it drops its moisture and then is no longer moisture-laden and no more will be dropped. If the moist air is replenished so that you have a circulation of moist air, either by convection currents or otherwise, you will have continued condensation.

Q. But in the example that you gave you will have at least one instance of condensation, will you not? A. Yes.

Q. If the ventilation or the circulation of air is sufficient [248] so that the air inside, let us say, is of the same temperature as the air outside, will that prevent condensation?

A. I would like to have you say whether or not you are talking about moisture-laden air or ventilation by bringing in dry air, or just what it is you are talking about.

Q. You are permitting the inside air to be of the same water content, and so forth, as the outside air. In other words, you permit air from the outside to freely move inside.

A. If you have the same absolute moisture content in the cold air and the warm air, the warm air will probably not drop its moisture and when it gets cold will have the same water characteristic as the cold air and move on with it. You are talking

(Testimony of Max C. Richardson.)

about something that is very specific. I am sorry if I have misled anybody, but it would take talking to someone who probably knows more of the psychometric chart than you do for me to explain it.

Q. Will you look at the Slaughter patent.

A. The Slaughter patent.

Q. Does this patent show a substantially flat sheet of rectangularly shaped metal? A. Yes.

Q. Does it show reversely turned edges?

A. Yes.

Q. And are these reversely turned edges interlocked in order to build up a roof covering? [249]

A. Yes.

Q. You stated that this shingle laid flat on the roof, I believe. A. Yes.

Q. I will call your attention to Fig. 4 and ask you if the construction there shown illustrates that the shingle could possibly lie flat on the roof.

A. We are defining "flat." I would say practically flat. When you have two thicknesses of, say, 20/1000ths metal and 20/1000th nailhead—40/1000ths, possibly—I would say it was practically flat, yes.

Q. There is an air space there, though, is there not?

A. You mean that there are places where there is not absolute contact of the shingle with the supporting structure? There is. As a matter of fact, as shown, if you want to look at the drawings, the roof is practically flat as seen in Figure 1. It has

(Testimony of Max C. Richardson.)

no sheathing, and that roof, if there was any warmth inside the building, would just drop water all over everything.

Q. Are you through, Mr. Richardson?

A. Yes.

Q. Will you refer to the Cusack patent.

A. Yes, sir.

Q. Does this patent show one nailing tab just like the patented structure? [250]

A. The Cusack patent?

Q. Yes.

A. Now, leaving off "just like the patented structure," and saying that it has one nailing tab and comparing the shingle, yes. Figure 2 shows one nailing tab per shingle.

Q. Is that what the patented structure has?

A. The patented structure has one nailing tab.

Q. Wouldn't the Cusack patent also be held away to some extent from the roof by the reversely turned edge, the same as the Slaughter patent?

A. I think, as Figure 5 was discussed this morning, we have a pile-up at the corners, and that pile-up can be added up to four or five or six thicknesses of metal, which with the thickness of our metal is 20/1000ths, approximately, in the shingles we have in evidence here. That would make somewhere around an eighth of an inch maximum raise of the shingle at the corner of the roof.

Q. Does Cusack also show a design on his shingle in Figure 3?

A. Yes, he does.

(Testimony of Max C. Richardson.)

would be open on one side and substantially horizontal, and that a downspout would have an element of almost enclosure and would be at nearer a vertical.

Q. Yes. It would be open, also?

A. What?

Q. It would be open, also?

A. Not necessarily, but it could be, yes.

Q. To permit water to pass through it?

A. Oh, yes. Open endways, yes.

Q. And they are both for the purpose of conveying water away or to some place?

A. That is right.

Q. When you were discussing the Miller patent I believe you stated that the shingles were placed diagonally on the structure, assembled diagonally

A. No, I said they were constructed and made to be applied like diagonal shingles, and they are applied alternately in horizontal rows like the diagonal shingles because of their construction like diagonal shingles.

Q. I call your attention to the statement on Page 1, Column 1, beginning with Line 19, where it says that the shingles [254] extend crossways of the roof.

A. That is right; they do, half-lapped top and bottom.

Q. I call your attention to Figs. 9 and 10 of the Miller patent, and ask you if these figures show that there is a spacing between the back of the Miller shingle and the supporting structure.

(Testimony of Max C. Richardson.)

A. Yes, it would appear that that was so.

Q. Referring to the British patent, is this a square shingle?

A. Physically square, and separate from the roof, yes.

Q. Does this shingle provide a means for draining water which may get on the back of the shingle for any reason onto the face of the next succeeding shingle or lower shingle?

A. No.

Q. What does element K do in the British patent?

A. It drains the seams listed in Figures 4 and 5.

Q. If there is any water in those seams—

A. It drains out onto the next shingle.

Q. Supposing there was water that formed on the back of the shingle?

A. We can only read the patent to see that they have made no provision for that. If you will read Page 4, beginning Line 10: "For this purpose the four lateral flanges by which the tiles are connected together are provided with hollow beads or rims J, so that when the tiles are superimposed a free space is left between them, and the wind is [255] prevented from entering under the tiles, while the reflux of the rainwater cannot take place. Owing to the slant of the roof and the disposition of the flanges any water which may have penetrated to a certain extent between the tiles under the action of a high wind will run off to the lower corner K of the tiles, and so onto the roof."

Q. Supposing there were water of condensation

(Testimony of Max C. Richardson.)

Lines 10 and on: "Furthermore, it is well known to those versed in the art of roof construction that metallic roofs are subject to what is technically known as 'sweating' which appears in the form of an accumulation of condensate and moisture upon the underside of the shingles adjacent the sheathing material."

I believe that that is a good report of prior art experience.

Q. But there are no other patents which we have before us which talk about it?

A. That is right.

Q. Is it not true that in patent draftsmanship the use of a term such as "well known" as used in this Belding patent is quite commonly used by draftsmen? A. That is right. [258]

Q. Now, you made a distinction between a bleeder and a drain slot.

A. I don't remember that. Possibly I did.

Q. I will ask you, then. I believe you were talking about water which might come out of the corners of a shingle, and you referred to those openings as bleeder openings.

A. I don't remember that I did, but I might have.

Q. Well, would you refer to those as bleeder openings or not?

A. I would refer to them as openings of little capacity and they would probably be blocked after a certain use.

(Testimony of Max C. Richardson.)

Q. Blocked by dirt or some foreign matter? Is that what you are referring to?

A. Or corrosion, yes.

Q. However, if these bleeder openings were on the large side, it would be more difficult for them to be blocked? A. That is right.

Q. Now, referring to the accused shingle, calling your attention to these openings at the corner, could these openings function as a means for permitting air to go behind the shingle?

A. They couldn't help it.

Q. Referring to the structure of the original Korter application— A. The what? [259]

Q. —which did not have the drain slot—did you hear what I said?

A. Referring to the original Korter application?

Q. Yes, that structure that did not have the drain slot. A. Possibly I should see that.

Q. Here you are.

A. I would rather see the patent or the application.

Q. You are familiar with the application, aren't you?

A. Yes, but I am sure you are going to want me to be exact and not guess at this, aren't you?

Q. Certainly.

A. Then I would like to have the file wrapper.

Q. Are you ready, Mr. Richardson?

A. I haven't found the drawing yet. Here it is.

Q. Now, referring to Defendants' Exhibit 42, which is a sample of shingle made according to that

(Testimony of Max C. Richardson.)

application, that shingle did not have a drain slot in it, did it?

A. Yes, I would say it had a drain slot. It has two drain slots. It has both ends open on the gutter.

Q. All right. Now, did that shingle work to drain any water of condensation which might form on the back of it?

A. It would certainly drain some.

Q. It did function as a drain?

A. It must have, yes.

Q. What was the improvement, then, in placing another hole [260] in the gutter?

A. The improvement in providing an adequate drain slot which would not be clogged in combination with a gutter which required draining and means for draining the condensation into the gutter is the improvement of the Korter patent.

Q. In other words, it made the drainage better in the Korter patent which was issued as compared to the shingle you have in your hand?

A. It certainly would, yes.

Q. It was a question of making better drainage?

A. It was a question of assuring drainage throughout the life of the shingle, yes.

Mr. Kolisch: That is all.

Mr. Brown: That is all.

The Court: I want to ask Mr. Richardson a couple of questions. If this roof had the accused shingle built on it in such a way that the problem

Testimony of Max C. Richardson.)

If water of condensation was eliminated, there wouldn't be any infringement then, would there?

A. If you had a roof built with the accused shingle and there was no condensation formed on the underside, the infringement would still be there if that building were capable of operation so that condensation would form. Infringement, as I understand it, is not necessarily present every day; that is, [261] on a dry, sunshiny day the infringing shingle infringes just as much as it does on a wet day.

The Court: Yes, but if the roof were built to absolutely foreclose water condensation under the shingle, it wouldn't infringe, would it?

A. Yes, because it is capable of operation—the shingle itself here is the infringing device, and not the roof.

The Court: What you are saying, though, is that if they added another element to the combination which foreclosed water condensation it would then not infringe because it would be a new invention?

A. No. Of course, the practical matter would be for them to leave out these improvements that they have and build a tight roof. Why are they afraid of being unable to build a tight roof and take these improvements and put them on their shingle? If we had to prove that every infringing shingle always infringed, we had better just save our money.

The Court: If it was proved, though, that it never was intended to function by that method be-

(Testimony of Max C. Richardson.)

cause of the addition of some other element, that would prevent it from infringing, wouldn't it?

A. No, the addition of an element does not avoid infringement, if the structure includes the same elements.

The Court: I wonder. I don't think that is accurate. If you add a new element to a larger structure which prevents [262] it from functioning in the way in which the previous patent functions then there is no longer any infringement, is there?

A. If the old elements are present in the claim and could function as claimed, adding a new element and temporarily using some of the devices for non-functioning purposes would not prevent your infringing by making, using or selling, if the devices you made, used or sold could be used to infringe.

The Court: Perhaps I am asking a question of law.

The Witness: Of course, it means a great deal to me. I am in the business of advising my own patent clients. I believe I have the thing in my mind in accordance with the practice and the requirements of the office and the law.

The Court: Now, taking this question of the drain slot. That is a salient element of the combination?

A. Yes. That is, means for draining the gutter is a salient part of the combination.

The Court: The other side says that their shin

(Testimony of Max C. Richardson.)

gle does not infringe because they don't have a drain slot. How do you reconcile that?

A. Well, they have a drain slot.

The Court: In other words, you say they have an equivalent?

A. That is right. There is nothing in the patent and there is nothing in the dictionary which says what shape or size or position a slot shall have. The patent says a drain slot. [263] Now a slot is not always a drain slot, but a slot which necessarily drains and is disposed in the gutter and which drains the gutter is a drain slot in the Korter claim.

The Court: Do you find any shingle in the previous art which had such a loose combination that it would have acted to withdraw the water of condensation off the inner surface of the roof?

A. Of course, it is difficult not to read a prior art with hindsight. When we go into matters of this kind, we have to read patents for what they teach us; not what we can teach them. It is only what they can teach us, and we are somewhat limited to what they actually say. We are not in a position to read into the previous inventor's mind something he left out of his invention. However, we can take notice of the state of the art and the probabilities, and I think you will find, if this matter is considered in view of the circumstances under which shingles have been used in the past and the development of the use of shingles, that shingles in the past have been generally used in the way of making a tight sheathe over a roof, and that the

(Testimony of Max C. Richardson.)

effort has been to make the thing entirely airtight and watertight, and that it is only in the late-comers where it has been thought desirable or they have made an effort to make a shingle to actually have that condensation form where they wanted it to form in order to take it off. [264]

Now, as I pointed out in Belding, which is the primary citation here for the reason that it is the only patent that teaches the handling of the condensation problem, and therefore it is the only teaching patent here, it definitely takes another angle to handle the problem. It definitely removed the heat from the underside of the roof by insulating the metal sheathing so that both sides will have the same temperature and the air on the underside will have the same temperature as the roof. Then the shingle lies flat on this insulating board, with only one embossing raised underneath, and thus air did not circulate through and it would diffuse air from an air duct along the underside.

Now a carefully made roof of that type would not have the condensation problem beyond the ability of that small amount of circulating outside air to keep the roof dry. But that particular problem could not be handled with that type of a shingle without the insulating board.

The Court: Of course, you say that we ought not to read back of our present knowledge, as the Court of Isabella did after they saw Columbus span the ocean, but if there is a structure in the public domain, whether under patent or not, in which th

(Testimony of Max C. Richardson.)

specifications do not claim a particular invention, but it does actually operate in that way, nevertheless, it is anticipation? [265]

A. Yes, that would be true, if it actually operated that way.

The Court: But you find nothing in any of these prior patents that are here in evidence——

A. I find nothing in any of the prior patents except Belding that even recognizes the problem.

The Court: And that solves it in a different way?

A. That solves it in a different way.

The Court: Would you like to inquire of him any further as a result of the Court's examination?

Mr. Kolisch: I would like to mention just one thing.

Q. May I ask you, Mr. Richardson, to refer to the Korter patent. With respect to the question of infringement, the Court asked you whether or not there was infringement if the accused structure did not have a slot such as called for by the Korter patent. As I recall your answer, you said that it was the same thing; all that is important to respond to the Korter claim is to have a means for draining. Is that correct?

A. That is practically so, yes.

Q. I call your attention to the end of Column 1, in which the patentee says: "I have provided each gutter edge 16 with a drain slot 21 near the corner 2 of the shingle."

A. That is right.

Q. Then he says: "Obviously more slots 21 may

(Testimony of Max C. Richardson.)

be employed [266] without departing from the spirit of this invention." A. That is right.

Q. He does not mention that corner 22 is a drain, does he?

A. It doesn't mention that corner 22; no, it does not.

Q. He merely says that the drain slot is an opening 21 provided near the corner.

A. "Obviously," he says, "more slots may be employed."

Q. Slots like 21?

A. No. Now, if you were to find in the prior art slots functioning as the combination of Korter, and it became of patentable importance that the claim was in the shape of the slot, then the shape of the slot would be controlling. But we find nowhere in the prior art any slot beyond that mentioned by Korter, and he therefore is entitled to the broad equivalents of the illustrated slot. Korter is not required, when he makes his patent application, to illustrate every type of slot. Korter is required to illustrate what he considers a possible mode of operating his invention. He has to illustrate one way, but it is only prior art that limits him from claiming all ways, and the prior art does not show other ways of doing the thing.

Q. Have you finished?

A. That is all right.

Q. Korter does not teach in his patent any equivalents of slot 21, does he? [267]

A. Korter doesn't teach it?

Testimony of Max C. Richardson.)

Q. Doesn't teach any equivalents in his patent? Does he mention any?

A. Any equivalents to the slot?

Q. Equivalents to slot 21?

A. For goodness sake, Mr. Kolisch, I don't want to get all hectic about this, but I would just like to point out that the only reference as far as structure goes in the claim is "a drain slot disposed in the gutter of said shingle for draining water therefrom." And he has the entire breadth of that in his claim, anyway. There is nothing in the claim that says anything about the shape of the slot. It just is disposed in the gutter for the purpose of draining the gutter. And it is allowed and it is assumed to be valid, and there is nothing in the prior art that says that that combination with any form of slot in the gutter is in the prior art.

Q. Mr. Richardson, when Mr. Korter uses the term "drain slot" in his claim—

A. He is illustrating a possible mode. He must illustrate something, according to the patent law.

Q. And to find out what he meant by "drain slot," don't we look at his drawings and his specification? A. No.

Q. Where do we look? [268]

A. We look into the prior art for the breadth of meaning of his claim.

Q. In other words, is it your position, Mr. Richardson, that a patentee does not define in his specification the words that he uses in his claims?

A. The patentee in his specification and in his

(Testimony of Max C. Richardson.)

drawings specifies a mode for the operation or use of his invention. Then if in the prosecution of the case no other way of operating in accordance with that invention is found, the inventor had the full breadth of any way of doing it. He is entitled to the full equivalents. If he finds that there are other ways, then he is limited to his specific way.

Q. Is it then your position that there was never a drain slot before Korter?

A. There never has been a combination of the improvement of a method to drain condensation from the underside of a shingle.

Q. Were there ever drain slots structurally such as 21?

A. You mean have there been oval holes in anything? Of course, there are oval holes all over.

Q. In gutters?

A. In gutters? I don't know. I haven't seen them. But there is certainly nothing that functions in the prior art that would cause you to say that the drain slot of Korter is found in the prior art.

Q. To your knowledge, you have never seen a hole in a gutter [269] such as shown in element 21 in the Korter patent?

A. In a gutter? What kind of a gutter?

Q. Any kind of a gutter for carrying water.

A. No. No, I wouldn't say so.

Mr. Kolisch: Thank you. That is all.

Mr. Brown: That is all.

(Witness excused.)

The Court: You have no more testimony?

Mr. Bischoff: No. Plaintiff rests.

The Court: What do you wish to do about submission now, Gentlemen?

Mr. Bischoff: Your Honor, Mr. Brown expressed desire that he would like to argue the matter and present our views to your Honor orally, if that is possible. Then, in any event, we would like an opportunity to submit a memorandum to your Honor.

The Court: If you are going to submit a memorandum, I have followed the practice of the appellate courts. I don't want any oral argument until after I have had a chance to read the memoranda.

Mr. Bischoff: That perhaps may be a desirable way to do it. We would like to submit a memorandum.

The Court: Whether it is better or not, that is my way.

Mr. Bischoff: That will be satisfactory to us, your [270] Honor.

Mr. Kolisch: That is agreeable to the defendants.

The Court: How much time do you want to file your memorandum?

Mr. Bischoff: We would like to have about 25 days after we receive the transcript to file an opening brief.

Mr. Kolisch: I would like to have two weeks after receiving their brief.

The Court: All right. I will set the time tentatively. I am not going to make any hard-and-fast rule on the Reporter, but he will make a reasonable effort to get it to you as soon as possible. I will

give you 25 days after receipt of the transcript, and I will give you 25 days after receipt of the brief of the other side.

Mr. Bischoff: May we have, your Honor, 15 days to file a reply memorandum?

The Court: Reply brief in five days. You should reply in five days.

Mr. Bischoff: I normally think that would be correct, but Mr. Brown is in Dayton, Ohio, and I have to correspond with him.

The Court: All right. I will say 15 days.

(Whereupon proceedings in the above matter on said day were concluded.)

[Endorsed]: Filed May 5, 1954.

[Endorsed]: No. 14968. United States Court of Appeals for the Ninth Circuit. Harry X. Bergman, Perma-Lox Aluminum Shingle Corporation, and Victor H. Langville, doing business under the assumed name of Langville Manufacturing Company, Appellants, vs. Aluminum Lock Shingle Corporation of America, Appellee. Transcript of Record. Appeal from the United States District Court for the District of Oregon.

Filed: December 7, 1955.

/s/ PAUL P. O'BRIEN,
Clerk of the United States Court of Appeals for
the Ninth Circuit.

In the United States Court of Appeals
for the Ninth Circuit

No. 14968

HARRY X. BERGMAN, et al., Appellants,

vs.

ALUMINUM LOCK SHINGLE CORPORATION OF AMERICA, Appellee.

APPELLANTS' STATEMENT OF POINTS
ON APPEAL

Come Now appellants, Harry X. Bergman, Perma-Lox Aluminum Shingle Corporation, and Victor H. Langville doing business under the assumed name of Langville Manufacturing Company, and make and file herein their statement of points upon which they intend to rely upon appeal herein, as follows:

1. The trial court erred in construing the patent in suit to be infringed by the accused structure (aluminum shingle).
2. The trial court erred as a matter of law in applying Title 35 U. S. Code, Sections 102, 103 and 104, to the patent in suit and in adjudging said patent to be valid and infringed.
3. The trial court erred in adjudging that the patent and the claim thereof are not so limited by the prior art conceded and in evidence as not to be infringed by appellants.

4. The trial court erred in adjudging that the patent in suit and the claim thereof is not so limited by the proceedings in the United States Patent Office during the prosecution of the application for said patent and a co-pending application, as not to be infringed by the accused structure.

5. The trial court erred in adjudging the scope of the patent in suit and the claim thereof to extend and to cover an aluminum shingle like the accused structure which does not have a drain slot such as shown and claimed by the patent in suit.

6. The trial court erred in holding and adjudging that the accused structures made and sold by appellants constitute a combination of parts equivalent to the patent in suit and therefore infringe said patent.

7. The trial court erred in holding and adjudging the patent in suit and its claim thereof to be valid in view of the prior art and prior knowledge introduced in evidence.

8. The trial court erred as a matter of law in not applying the requisite standard of invention and in holding that the patentee, L. J. Korter, had made a patentable invention.

9. The trial court erred in holding that the patent in suit is entitled to a range of equivalents which included the accused structure.

10. The trial court erred in adjudging and holding the patent in suit and its claim valid when construed to be infringed by the accused structures.

11. The trial court erred in adjudging and finding that appellant, Harry X. Bergman, is personally or individually liable for any infringement of the patent in suit.

Respectfully submitted,

/s/ ROBERT F. MAGUIRE,

/s/ J. PIERRE KOLISCH,

Of Attorneys for Appellants

Acknowledgment of Service attached.

[Endorsed]: Filed December 2, 1955. Paul P. O'Brien, Clerk.

**United States
Court of Appeals
For the Ninth Circuit**

**HARRY X. BERGMAN, PERMA-LOX ALUMINUM SHINGLE
CORPORATION and VICTOR H. LANGVILLE, doing busi-
ness under the assumed name of LANGVILLE MANUFAC-
TURING COMPANY,**

Appellants,

vs.

**ALUMINUM LOCK SHINGLE CORPORATION OF
AMERICA,**

Appellee.

Appellants' Brief

**On Appeal from the United States District Court for
the District of Oregon**

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**PAUL P. O'BRIEN
CLERK**



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United States
Court of Appeals
For the Ninth Circuit

HARRY X. BERGMAN, PERMA-LOX ALUMINUM SHINGLE CORPORATION and VICTOR H. LANGVILLE, doing business under the assumed name of LANGVILLE MANUFACTURING COMPANY,

Appellants,

vs.

ALUMINUM LOCK SHINGLE CORPORATION OF AMERICA,

Appellee.

Appellants' Brief

On Appeal from the United States District Court for the District of Oregon

STATEMENT OF JURISDICTION

Jurisdiction of District Court

This is a suit for infringement of Korter patent No. 2,631,552 (Tr. 309, PX 1)¹ brought by plaintiff, Aluminum Lock Shingle Corporation of America, as the assignee of the entire right, title and interest in and to said patent, and jurisdiction is based upon the patent laws of the United States and particularly 35 U.S.C.A. Sec. 281:

“A patentee shall have remedy by civil action for infringement of his patent.”

¹“Tr.” denotes the page of the printed record of the transcript of the trial; “PX” plaintiff’s exhibits; “DX” defendants’ exhibits.

Jurisdiction of Court of Appeals

This is an appeal from a decree (Tr. 54) finally adjudicating Korter patent No. 2,631,552 to be valid and infringed by defendants and granting an injunction permanently enjoining defendants from making, using or selling aluminum shingles which infringe said patent. Such a decree is appealable under 28 U.S.C.A. Sec. 1292 (1), (4):

“The courts of appeals shall have jurisdiction of appeals from:

“(1) Interlocutory orders of the district courts of the United States, the District Court for the Territory of Alaska, the United States District Court for the District of the Canal Zone, the District Court of Guam, and the District Court of the Virgin Islands, or of the judges thereof, granting, continuing, modifying, refusing or dissolving injunctions, or refusing to dissolve or modify injunctions, except where a direct review may be had in the Supreme Court;

* * *

“(4) Judgments in civil actions for patent infringement which are final except for accounting.”

STATEMENT OF THE CASE

This is an appeal from a decree (Tr. 54) holding valid and infringed the single claim of Korter patent No. 2,631,552 (PX 1, Tr. 309) on which plaintiff, assignee of the patent, sued defendants.

Defendant Harry X. Bergman is president of defendant Perma-Lox Aluminum Shingle Corpora-

tion which sold the aluminum shingle (PX 3) charged to be an infringement of the Korter patent which were manufactured by defendant, Langville Manufacturing Company.

The Korter patent is for an alleged improvement in metal roofing shingles. The Korter patent issued on March 17, 1953, on application Serial No. 137,566, filed on January 9, 1950. The bill of complaint (Tr. 3) charges defendants with infringement of the Korter patent and defendant Harry Bergman with unfair competition in the sale of the accused aluminum shingles. Defendants Bergman and Perma-Lox answered (Tr. 10), denying infringement and validity of the Korter patent and counterclaimed for a judgment of invalidity and noninfringement and also counterclaimed for unfair competition and anti-trust law violation. Defendant, Victor H. Langville, separately answered the complaint denying validity of the Korter patent and for an adjudication that defendant did not infringe the claim of the patent (Tr. 24).

At the pretrial conference, the District Judge directed that the issues of validity and infringement of the Korter patent be segregated from the other issues in the case and be tried first (Tr. 35). The ensuing trial was limited to the issues of validity and infringement which were finally disposed of favorably to plaintiff as per the Decree and Findings of Fact and Conclusions of Law (Tr. 46).

Subject Matter Involved

The Korter patent is for an aluminum shingle of the interlocking type. Plaintiff's physical Exhibit 2 is a shingle made in accordance with the patent. The object of the invention is stated in the patent (Tr. 311) as follows (column 1, lines 6 to 9):

"The main object of this invention is to devise a metal shingle of the interlocking type in which provision is made to prevent leakage from heavy runoff, on condensation, or both."

and the invention is clearly stated to be (column 1, lines 17-19):

"Fig. 3 is a fragmentary perspective view of one corner of the shingle showing *the drain slot which forms the basis of this invention.*" (Emphasis added).

Referring to the drawings of the patent (Tr. 310), the shingle comprises a flat, rectangularly shaped piece of metal longitudinally divided into panels 10 by grooves 12. The edges of the shingle (13, 14, 16 and 17) are reversely turned. A nailing tab 15 is provided in the upper right-hand corner, and a drain slot 21 is located near corner 22 of the bottom reversely turned edge or gutter 16. When the shingles are assembled on a roof, the reversely curved edge portions interlock with similar portions on adjacent shingles. As shown in Fig. 4, any water which may get under a shingle will be accumulated in gutter 16 and run out through drain slot 21 onto the outside surface of the next lower adjacent shingle.

Broadly speaking, the accused shingles (PX 3) are similar to the patented ones with the important exception that the accused do not have a drain slot in the bottom reversely turned edge of the shingle. The accused shingles have an open corner corresponding to corner 22 in the Korter patent.

History of the Korter Patent

Korter filed two patent applications (DXs 28 & 29) in the Patent Office and while the patent in suit actually issued upon the later filed application (DX 29), plaintiff maintained, and the District Court found, Conclusion 6 (Tr. 53), that the later filed application was entitled to the filing date of the earlier application for all subject matter common to the two applications. In order to decide the questions of validity and infringement both file wrappers must be examined.

A. The Earlier Filed and Abandoned Application

Korter filed his first patent application Serial No. 776,332 (DX 28) in the United States Patent Office on September 26, 1947. The shingle disclosed in this original patent application was the same as the shingle disclosed in the patent in suit except that the first shingle did not have a drain slot as shown in the patent. All of the claims of the first patent application were finally rejected by the Patent Office as being fully met by the prior art. An appeal was taken to the Board of Appeals of the Patent Office which decided the appeal adversely to Korter on July 24, 1952 (DX 28, paper #15).

A civil action under R. S. 4915 was then filed in the United States District Court for the District of Columbia entitled "Louis J. Korter v. John A. Marshall, Commissioner of Patents, Civil Action No. 549-52," in an effort to compel the Commissioner of Patents to issue a patent upon the rejected application (DX 28, paper #17). That action, however, never went to trial and the patent application was abandoned on March 13, 1953, by a stipulation dismissing the case with prejudice as to all claims in the application.

B. The Later Filed Application of the Patent in Suit

The second application (DX 29) was filed in the United States Patent Office on January 9, 1950, and it was upon this application that the patent in suit ultimately issued. This application refers to the prior application and shows, describes, and claims drain slot 21 which is the only material difference between the two applications. Throughout the entire prosecution of the second application, the importance of the drain slot was stressed before the Examiner, and was the reason for allowance of the only claim in the patent. It was the sole detail not shown in any of the prior art patents cited by the Examiner.

The Korter Patent is Limited to a Shingle with a Drain Slot

The claim of the Korter patent in suit is of the combination type and calls for the following elements:

- (1) a flat, rectangularly shaped metal shingle;

- (2) corrugations forming ridges on the inner face of the shingle;
- (3) reversely turned opposite edges for interlocking with adjacent shingles;
- (4) the turned bottom edge of each shingle forming a gutter;
- (5) a fastening tab extending from an upper corner of the shingle;
- (6) a drain slot disposed in the gutter for draining water therefrom; and
- (7) the ridges on the inner face of the shingle spacing the top edge of the lower shingle from the inner surface of the shingle so that moisture of condensation can travel into the gutter.

All of the above elements are present in the shingle actually manufactured by the plaintiff corporation and in fact the shingles currently manufactured and sold by plaintiff corporation (PX 2) are substantially identical to the shingle as illustrated in the Korter patent drawings. The only element of the above list which distinguishes the disclosure of the patent in suit from the disclosure of the earlier and finally rejected application of Korter is element No. 6, the "drain slot" formed in the gutter. This drain slot is shown at 21, Figs. 1 and 3 of the Korter patent in suit, and no such drain slot is disclosed in the earlier application. This drain slot is the basic and essential feature of the patent in suit. See page 1, column 1, lines 17 to 19, inclusive.

“Fig. 3 is a fragmentary perspective view of one corner of the shingle showing the drain slot *which forms the basis of this invention.*” (Emphasis ours).

Defendants’ Alleged Infringing Device

Appellants’ shingle (PX 3) contains no “drain slot” formed within the gutter. While there are numerous other differences of a lesser nature (Tr. 229, 231), the absence of a drain slot is the major distinction between the shingles of Korter’s patent and defendants. It may be admitted, *arguendo*, that appellants’ shingle is substantially similar to the shingle disclosed in the finally rejected and abandoned Korter application Serial No. 776,332 in that any water collecting in the gutter at the lower end is drained from the open ends of the gutter.

SPECIFICATIONS OF ERROR

Appellants rely upon each of the eleven specifications of error assigned by them with the statement of points on appeal (Tr. 305).

There are two main defenses in this suit:

- (1) Noninfringement, and
- (2) Invalidity of the Korter patent.

The first ten of the specifications of error relate to these two defenses while the eleventh specification of error relates to the adjudication and findings that appellant Harry X. Bergman is personally liable for any infringement of the Korter patent.

Questions Presented

1. Is the patent entitled to the doctrine of equivalents where the documents relating to the prosecution of the patent in the Patent Office establish that only by the inclusion in the specification and claims of a new element (drain slot) was the applicant able to obtain allowance of the patent? The accused structure does not have that element (drain slot).
2. Does the accused structure infringe when it does not have an element (drain slot) expressly called for in the claim of the patent?
3. Did the District Court apply the required standard of invention in holding valid a patent which is for an assembly of old elements that produce no new or unobvious result?
4. If the patent is valid and infringed, is an officer of a defendant corporation personally liable when the officer has done nothing beyond the scope of his duties?

PROPOSITIONS OF LAW RELIED UPON AS DETERMINATIVE OF SCOPE OF PATENT

1. When a patentee on the rejection of his application inserts in his specification, in consequence, limitations and restrictions for purpose of obtaining his patent, he cannot after he has obtained it, claim that it shall be construed as it would have been if such limitations and restrictions were not contained in it.

Shepard v. Carrigan, 116 U.S. 593.

2. Where a patentee has so modified his claim in obedience to the requirements of the Patent Office, he cannot have for it an extended construction which has been rejected by the Patent Office; and, in a suit on his patent, his claim must be limited, where it is a combination of parts, to a combination of *all* the elements which he has included in his claim as necessarily constituting that combination.

Morgan Envelope v. Albany Paper Co., 152 U.S. 425.

3. Where a patentee has narrowed his claim in order to escape rejection, he may not "by resort to the doctrine of equivalents, give to the claim the larger scope which it might have had without the amendments which amounted to disclaimer."

Smith v. Magic City Kennel Club, 282 U.S. 784.

4. Where an applicant for a patent to cover a new combination is compelled, by the rejection of his application by the Patent Office, to narrow his claim by the *introduction of a new element*, he cannot after the issue of the patent broaden his claim by *dropping* the element which he was compelled to include in order to secure his patent. If dissatisfied with the rejection, he must pursue his remedy by appeal, and where in order to get his patent he accepts one with a narrower claim he is bound by it. It is not for the Court to inquire whether the examiner was right or wrong in rejecting the original claim.

Smith v. Magic City Kennel Club, *supra*.

5. The proceedings in the Patent Office are an important aid in interpreting the claims of a patent.

Lensch et al v. Metallizing Co., 39 Fed. Sup. 838.

6. The improver is not like a pioneer and is entitled only to a narrow range of equivalents. Where he has been specific in matters of number, form, structure, relationship and function of the element of his claim as the condition of the art required him to be, he cannot be permitted to depart from the plain meaning of the language he has adopted or claim for such language broad and generic construction.

Boyd v. Janesville Hay Tool Co. 158 U.S. 260;
D. & H. Electric Co. v. M. Stephens Mfg. Inc., et al, 108 USPQ 27.

ARGUMENT

In addition to the other errors of law and fact here involved, the learned trial Judge erred in holding that "There is no law in patent cases. A patent case is a question of fact," (Tr. 75), and by failing to follow either in his findings or conclusions of law the tests prescribed by the Supreme Court of the United States and adopted by this Court in *Kwikset Locks, Inc. v. Hillgren*, 210 Fed. 2d 483.

Had the trial Court applied these principles, it could not have avoided reaching the following conclusions:

(1) That every element of the claim which the Court upheld is found in the prior art except the drain slot adjacent the corner of the shingle and that the addition of this drain slot was the only new or unexpected result disclosed or claimed by Korter. Whether this would constitute invention is another question which we do not now discuss.

(2) That the defendants' accused structure omits the very element which constituted Korter's alleged invention and does not obtain the alleged new and unexpected results by means of any slot.

(3) That inasmuch as the accused structure neither includes the new element, the inclusion of which enabled Korter to obtain his patent, nor the unexpected result which Korter claimed from this new element, it does not infringe.

Furthermore, the learned District Judge failed to "scrutinize combination patent claims with a care proportioned to the difficult and improbability of finding invention in an assembly of old elements," which is enjoined in *Great A. & P. Tea Co. v. Supermarket Equipment Corp.*, 340 U.S. 147.

While invention may be a question of fact, there are legal standards which must be applied to determine whether or not the invention in fact exists. It is not invention to discover that water will flow through a hole and if one hole is not large enough to take care of the flow or any detritus which might tend to choke a hole, the problem can be taken care

of either by enlarging the hole or providing another hole. It would not take a mechanic of more than ordinary skill to discover this. In fact, any school boy is aware of this situation.

The Decision Below

Since the Court below did not see fit to write an opinion in support of its decision for plaintiff, we are left merely with the Findings of Fact and Conclusions as a possible explanation or motivation for the Court's decision. However, an examination of the Findings is of no assistance because they are completely devoid of any detail or explanation of the alleged invention, the patent, the accused shingle, the prior art or a comparison of the patent and accused shingle with the prior art devices. The Findings are merely conclusions of law and should carry little, if any, weight.

We believe that four major errors of law led the District Court to the conclusion that the Korter patent was valid and infringed:

1. The District Court held the Korter patent valid although there was no finding that the old elements which make up the device perform any additional or different function in the combination than they perform out of it, or that any new result was effected which was the joint product of the various elements.

2. The District Court made no findings as to what was in the prior art or what the Korter invention was, but merely adopted plaintiff's general conclusions

and arguments so that the findings are argumentative and have little value, if any, to support the Court's conclusion of validity of the Korter patent.

3. The District Court ignored the file wrappers of the prior abandoned Korter patent application and the patent in suit and failed to give any effect whatever to estoppel arising from these file wrappers which precluded the claim of the Korter patent being construed so as to include the accused shingle.

4. The District Court erred in giving the Korter patent a range of equivalents sufficiently broad to cover the accused shingles which differ from the patented shingle in their construction, operation and result.

The Findings

This is a case in which the decision depends upon documentary evidence, i.e., patents and file wrappers, and an observation of witnesses and their creditability is of little importance. There is no dispute as to the evidentiary facts and this Court is in as good a position as the District Court to examine the relevant evidence.

Kemart Corp. v. Printing Arts Research Lab.,
(9th Cir. 1953) 201 F. 2d 624, 627;

Kwikset Locks v. Hillgren, supra.

The decision of this Court can and should be based upon the interpretation of written documents and a construction of undisputed statements of the pat-

entee before the Patent Office and, therefore, the matter is as open for consideration by this Court as it was to the Court below.

We repeat that a most significant omission of the Findings is a failure to state what the invention of the Korter patent was. As this Court recently said in *Kwikset Locks, Inc. v. Hillgren*, *supra*, page 291:

“* * * The Supreme Court further requires that in order for a combination patent to be upheld, *there must be a specific finding that the old elements which made up the device perform an additional and different function in combination than they perform out of it.* No such finding was made in the case at bar. Nor do we believe that the District Court applied the strict standard or the close scrutiny to this combination patent required by the Supreme Court.” (Emphasis added).

The omission of the Findings on this particular point is significant because of the concentrated effort made by the plaintiff below to divert the attention of the Court from the drain slot and to create the false impression that the Korter invention was of a much greater scope and embraced a new and basic principle. It may well be that the lower Court was influenced by certain statements and representations made by the plaintiff in this regard, and as a result thereof the Court found the patent valid and infringed.

The Korter Patent Involves No New "Principle"

During the trial, plaintiff's expert witness, Mr. Max C. Richardson, testified (Tr. 84) that the drawing, plaintiff's exhibit 5, entitled "Principle of Korter's Invention," correctly illustrated "the intent and actual operation of Mr. Korter's shingle." This drawing shows only how condensation is drained from the underside of the shingle.

Relative to the same matter, Mr. Richardson testified variously further as follows:

"Now, attention should be called to Figure 4 and Figure 6 of the patent. In Figure 6 it is to be noted that 19 is the upper edge of a lower shingle, and that the small section above it as shown where the section is on Figure 4 is the cross-section of the lower edge of the upper shingle, showing that the corrugation 12 spaces the upper shingle from the curved top edge of the lower shingle in order that moisture hanging to the underside of the upper shingle can travel along the under shingle and into the gutter 20. *That is important and, as far as I know, not found in the prior art.* And the combination of that means, together with means for surely draining the water from the gutter onto the lower shingle, is the improved combination of Mr. Korter." (Emphasis added). (Tr. 88).

The Court asked Mr. Richardson a very pointed question (Tr. 297):

"The Court: Do you find any shingle in the previous art which had such a loose combination that it would have acted to withdraw the

water of condensation off the inner surface of the roof?

“A. Of course, it is difficult not to read a prior art with hindsight. When we go into matters of this kind, * * *.

* * *

“The Court: But you find nothing in any of these prior patents that are here in evidence—

“A. I find nothing in any of the prior patents except Belding that even recognizes the problem.

“The Court: And that solves it in a different way?

“A. That solves it in a different way.”

Further, on cross-examination, Mr. Richardson testified (Tr. 302):

“Q. Is it then your position that there was never a drain slot before Korter?

“A. There never has been a combination of the improvement of a method to drain condensation from the underside of a shingle.”

The above testimony could very well have impressed the trial Court with the idea that Korter's invention resided in the provision of a space between the lower edge of the upper shingle and the curved top edge of the lower shingle whereby condensation may flow downwardly along the underside of the shingle and into the gutter.

However, the fact is that the principle thus asserted for Korter's invention and illustrated in plain-

tiff's Exhibit 5 was inherent in the structure shown in the Miller patent No. 2,243,256 (PX 31). In the drawing of Appendix A there is reproduced the drawing of plaintiff's Exhibit 5 as well as Figs. 2 and 9 of the Miller patent. By reference to this drawing, it will be observed that each and every one of the functions illustrated and asserted to be the principle of Korter's invention are found to be inherent functions in the operation of the Miller shingle. While Miller does not, in his specification, refer specifically to the matter of *condensation* occurring on the underneath side of his shingle and draining downwardly into the gutter, it will be obvious that should any condensation occur on the underneath surface, it would inherently drain downwardly into the gutter. The specification does refer to the free drainage of rain water from the interlocking connections between the shingles. Attention is directed to the specification, page 1, column 1, lines 9 to 18, inclusive, and page 2, column 2, lines 64 to 73, inclusive. Whether the water which accumulates in the gutter is driven in from the rain and wind on the outside or comes from condensation occurring on the inner surface of the shingle is obviously immaterial. Referring to Fig. 9 of the drawing of Appendix A, it will be observed that the lower edge of the upper shingle A is spaced from the curved top edge 9 of the lower shingle by the thickness of the head of the nail 15 extending therebetween. Accordingly, any condensation which might occur upon the underneath side of the shingle, as indicated by

the beads of water M, may flow downwardly on the shingle into the gutter, as shown at N and from whence it may drain outwardly through the open ends of the gutter indicated at O in Fig. 2.

It is irrelevant that Miller does not refer to the matter of drainage of condensation. In this regard, Chief Judge Clark, 2nd Circuit, said:

“Without going into other cited patents of a cumulative effect here, we think it clear, therefore, that this Gentzel patent consists of a combination of elements, all of which were fully disclosed prior to its issuance. It is irrelevant that the inventors of prior devices failed to describe or appreciate all of their advantages (in this case, the prevention of undesirable heating of the frame rods). Consolidated Bunging Apparatus Co. v. Metropolitan Brewing Co., 2 Cir., 60 F. 2d 93, 97. It is enough that prior patents disclosed all the elements of plaintiff’s patent and in fact, lacking only slight modification, the very combination of elements contained in plaintiff’s invention. See Concrete Appliances Co. v. Gomery, 269 U.S. 177, 185; Cuno Engineering Corp. v. Automatic Devices Corp., 314 U.S. 84, 91, 51 USPQ 272, 275; Wrightway Engineering Co. v. Melard Mfg. Corp., 2 Cir., 219 F. 2d 392, 104 USPQ 223. * * * .”

Gentzel et al v. Manning, 230 F. 2d 341, 108 USPQ 353.

With reference to the matter of drainage from the gutter of the Miller shingle, Richardson on direct

examination was asked by plaintiff's counsel (Tr. 260):

“Q. Does Miller show a drain slot disposed in the gutter of the shingle?

“A. No, sir.”

Certainly, Miller does not show a cut-out drain slot similar to the cut-out drain slot 21 such as is shown by Korter in the patent in suit, but, nevertheless, Miller does show open ends on his gutter, as indicated in Fig. 2 of the drawing of his patent which is substantially identical with the open ends provided on the gutters of appellant's shingle.

Now, did Mr. Richardson in his testimony mean, because Korter provided a cut-out drain slot in his gutter rather than to permit the water to flow freely from the open end of the gutter, that Korter had invented a new principle? If he did, then he was obviously in error.

The Patent Office Rejected Claim 10 Directed Broadly to the Spacer Ribs for Facilitating Drainage of Condensation

The testimony of Richardson is all the more glaring when compared with the record history of the application which Richardson ignored. The file clearly shows that the Patent Office rejected the suggestion that Korter was entitled to patent protection for the spacer ribs 12. Attention is directed to the record regarding claim 10 which was submitted by the amendment dated March 19, 1951, page 10 of

the file wrapper (DX 29). For convenience this claim 10 is reproduced as follows:

“10. An aluminum shingle of rectangular shape having flat seams along the lateral edges thereof and having a backwardly turned half-round gutter along its butt end, said gutter having a reversely curved side, said gutter having a drain opening near the end thereof, the tip of said shingle having a shape similar to said butt end and turned toward the weather side of the shingle, said shingle having grooves formed therein forming spacers between the underside of the shingle and the top side of the interlocked gutter and tip seams.”

This claim calls for “said shingle having grooves formed therein forming spacers between the underside of the shingle and the top side of the interlocked gutter and tip seams,” the purported purpose of this particular feature of the invention being to provide for passage of condensation along the bottom side of the shingle past the upper edge of the underneath shingle and into the gutter from whence the condensation can flow outwardly through the drain slot. In the Remarks accompanying claim 10 and beginning on the bottom of page 11 of the file history, the following statement is made:

“In the new claim 10 is brought out the fact that the shingle has flat seams at each side and similar special seams at the tip and butt ends and that the grooves 12 form spacers which rest on the interlocked members 19 and 20. This provides a way for condensation to flow down the

underside of the shingle into the gutter from which it escapes through the drain hole 21."

This claim was promptly rejected in the next Office action by the Examiner dated December 6, 1951, in the following words:

"Claim 10 is rejected as unpatentable over Birch in view of Slaughter for the same reasons cited against claim 8. In Birch, the grooves 22 form spacers or channels on the underside of the shingles so that moisture on the said underside will drain into the gutter substantially for the same purpose as applicant's grooves." (Copy of Birch attached hereto as Appendix B.)

The applicant acquiesced in this rejection by the Examiner and this claim was promptly cancelled from the application, and no claim of comparable scope was ever submitted thereafter in the application.

It is quite obvious that the principle portrayed in plaintiff's Exhibit 5 was not of Korter's invention and that it was seized upon to distract attention from the miniscule contribution actually made by Korter.

The Court should note the extreme difficulty experienced by attorneys for Korter in obtaining allowance of the claim in the patent in suit. The history of the two applications (DX 28 and DX 29) are outlined as follows:

Application, Serial No. 776,332 (DX 28), Filed September 26, 1947.

Rejected, file wrapper page 9, November 24, 1948

- Amended, file wrapper page 10, February 24, 1949
- Amended, file wrapper page 14, September 9, 1949
- Rejected, file wrapper page 16, May 10, 1950
- Amended, file wrapper page 17, October 2, 1950
- FINAL rejection, file wrapper page 19, April 4, 1951
- Amended, file wrapper page 20, April 18, 1951
- Rejected, file wrapper page 23, April 24, 1951
- Appeal to Board of Appeals, file wrapper page 24, May 23, 1951
- Appeal Brief, file wrapper page 25, July 18, 1951
- Examiner's statement, file wrapper page 33, September 7, 1951
- Decision of Board of Appeals, file wrapper page 35, July 24, 1952
- Appeal to U. S. District Court, file wrapper page 40, December 5, 1952
- Appeal Dismissed, file wrapper page 40, March 13, 1953
- Application, Serial No. 137,566 (DX 29), Patent No. 2,631,552, Filed January 9, 1950*
- Rejected, file wrapper page 8, November 2, 1950
- Amended, file wrapper page 9, March 19, 1951
- Rejected, file wrapper page 13, December 6, 1951
- Amended, file wrapper page 15, June 6, 1952
- Amended, file wrapper page 19, October 7, 1952
- Interview acknowledged, file wrapper page 21
- Amendment, file wrapper page 33, October 10, 1952
- Interview acknowledged, file wrapper page 35
- Amendment, file wrapper page 56, December 1, 1952

Interview acknowledged, file wrapper page 57
 Rejected, file wrapper page 65, January 12, 1953
 Amendment, file wrapper page 67, January 15, 1953

Interview acknowledged, file wrapper page 68
 Amendment, file wrapper page 74, January 28, 1953

Interview acknowledged, file wrapper page 75
 Amendment, file wrapper page 78, February 9, 1953

Interview acknowledged, file wrapper page 79
 Particular attention is directed to the fact that

the record acknowledges at least six personal interviews with the Examiner, all within a space of six months. A similar record of wearing down the resistance of the Examiner drew a strong criticism from Chief Judge Clark in the case of *Gentzel v. Manning*, supra:

“* * * Of at least equal persuasiveness are the tortuous progress of these patents through the Patent Office from 1935 to 1942 and the many emendations of statement, especially in the second patent, made to meet the objections of examiners—a classic example of what Judge Learned Hand has called ‘the antlike persistency of solicitors’ which overcomes ‘the patience of examiners, and there is apparently always but one outcome.’ See *Lyon v. Bob*, D.C.S.D.N.Y. 1 F. 2d 48, 50, reversed on grounds not here apposite 2 Cir., 10 F. 2d 30.”

Korter's Sole Contribution Was a "Drain Slot"

Korter's sole contribution to the metal shingle art resides in the provision of a cut-out "drain slot" in the gutter at the lower end of the shingle. This is clearly established beyond any question of doubt by the specification of the Korter patent itself. For example, in the fore part of the specification, page 1, column 1, lines 17 to 19, inclusive, the following statement is made:

"Fig. 3 is a fragmentary perspective view of one corner of the shingle showing the drain slot which forms the basis of this invention."

A few lines further, the drain slot is further emphasized thus:

"Fig. 4 is a fragmentary vertical section through an overlapping joint showing the purpose of the drain."

Again, in lines 23 to 25, column 1, further reference is made thereto thus:

"Fig. 5 is a fragmentary section along the line 5-5 in Fig. 4 through the butt end of the shingle and passing through the drain slot."

Later on in the specification, page 1, column 1, beginning with line 54, the drain slot is further described.

"* * *, I have provided each gutter edge 16 with a drain slot 21 near the corner 22 of the shingle. Obviously, more slots 21 may be employed without departing from the spirit of this invention. * * * The purpose in having the drain slot 21 near the corner 22 is to keep it as far as

possible from the joints in the next lower course.”

In view of the repeated references to the cut-out drain slot 21 made throughout the specification of the patent and in view of the clear and unambiguous portrayal in the drawings, it is inconceivable that the term “drain slot” as found in the claim permits of any other interpretation.

It is a general rule of patent law that the protection furnished by a patent and the extent of the grant, are measured by the claims, which measure or define the invention. The patentee disclaims or waives everything not covered by the claims, and is bound by limitations therein; and he and the Courts are bound by the language thereof.

“The protection furnished by a patent and the extent or scope of the grant, are measured and limited by what is set forth in the claims on which it was granted. Accordingly, under the judicial decisions on the question, the claims measure, determine the invention patented or, under other circumstances, define the invention patented, measure, determine, define, or control the scope thereof, define the extent thereof, or mark its boundaries, or limit the rights of the patentee, or measure his property rights and his right to relief. The boundaries established by the patentee may be neither extended nor shortened to meet the exigencies of a particular situation.

“A patent in litigation must stand on the

original claims and specifications, or it cannot stand at all, and each claim must stand or fall as itself sufficiently defining the invention independently of the other claims.

“Everything not covered by the claim or claims is disclaimed, or waived, and, according to the several decisions on the question, is open to the public, and the patentee, or one claiming under the patentee, is bound by limitations contained therein, notwithstanding the general rule, stated *infra* subdivision (c) of this section, requiring the broadest interpretation which the terms of the claim will reasonably permit. A claim can never be given a construction broader than its terms in order to cover something which might have been claimed but was not.

“If the language of the claims is clear and distinct, the patentee is bound by the language he has employed, and may not claim anything beyond them. Courts must take claims as they find them, and may not rewrite them, but are bound by the language chosen by the inventor in framing his claims, and may not add to or detract from, and the claims matter not expressly or necessarily implied, or enlarge the patent beyond the scope of that which the inventor claimed and the Patent Office allowed, even though the patentee may have been entitled to something more than the words he has chosen will include.”

69 C. J. S. 680-685 (4 full pages of citations listed).

As was further stated by the Supreme Court of the United States in *Universal Oil Products Co. v. Globe Oil Refining Co.*, 322 U.S. 471:

“The claim is a measure of the grant. *Smith v. Snow*, 294 U.S. 1. The claim is required to be specific for the very purpose of protecting the public against extension of the scope of the patent.”

Admittedly, an express limitation in a claim may be ignored, or given a broad interpretation when a perusal of the file history shows that its inclusion in the claim was not necessary to an allowance of the claim or required by the Patent Office or by the prior art. However, such were not the circumstances in the present case since the file history indicates that it was necessary to include a specific reference in the claim to the “drain slot” 21 in order to distinguish the Korter structure over the prior art cited thereagainst by the Examiner during the prosecution of the application.

There can be no doubt but that it is entirely proper to refer to the file wrapper of a patent application for the purpose of determining the scope of the claims as granted. This procedure has been approved by the Supreme Court of the United States and followed in this Circuit.

“If there be any ambiguity or if the true scope of applicant’s invention is not clear, our Ninth Circuit Court of Appeals has in effect held that reference may be made to the file wrapper

and arguments. Fullerton Walnut Growers' Ass'n v. Anderson-Barngrover Mfg. Co., 166 F. 433, 452. See also Lektophone Corporation v. Rola Co., 27 F. (2d) 758, affirmed 34 F. (2d) 764. This we believe to be the proper interpretation of the decision of the Supreme Court in Keystone Driller Co. v. Northwest Engineering Corp. (1935), 294 U. S. 42 (24 U.S.P.Q. 35). (For a discussion of the rule in this circuit and in other circuits, see 'File Wrapper Estoppel' by Vern L. Oldham in 20 Journal of the Patent Office Society 115 [1938] and case note in 8 George Washington Law Review 871 [March, 1940].)."

Lensch et al v. Metallizing Company of America et al, supra.

The original application, Serial No. 776,332 (DX 28) referred to in the first paragraph of the patent in suit, did not incorporate any drain slot in the gutter of the shingle. Aside from the cut-out drain slot, the metal shingle disclosed in the drawing and specification of that original application was identical with the shingle disclosed in the patent in suit. This was admitted by Korter (Tr. 152). As the file history of the first patent application shows, the inventor was unable to differentiate the shingle shown herein over the prior art patents. Following final rejection of all claims, an appeal was then taken to the Board of Appeals which affirmed the Examiner and, as mentioned above, the application was ultimately abandoned. Now Korter asks that the claim of his patent be construed so broadly as

to cover the construction which was abandoned in his first application.

Usage of Term "Drain Slot" in the Claim was Intentional

Many of the claims submitted during the prosecution of the second application called merely for a "drain opening" in the gutter and the Examiner promptly rejected all such claims on the basis that such prior art patents as Miller and de Sincay disclosed drain openings. The claim as ultimately allowed stipulated a "drain slot" instead of a drain opening and all of the various arguments submitted for the allowability of the claim also referred specifically to a "drain slot".

In the amendment which submitted the claim which was finally allowed, emphasis was placed upon the "cut away drain slot at the bottom of the shingle which is disposed adjacent a corner thereof for draining water from the shingle." (See file wrapper, DX 29, page 23.)

In the remarks filed under date of October 9, 1952, beginning on page 36 of the file wrapper, the following statement is made:

"Furthermore, none of the shingles of the prior art provide a shingle having the body of the shingle lying in the same plane wherein all four sides are curved as set out, and there is a cut-away drain slot disposed at the *bottom* of the curved edge portion of the shingle and *adjacent a corner thereof* so that water will drain, not into the joint of the shingle but inwardly and over

the face of the next lower shingle and hence downwardly over the roof structure. This drain slot and its position is an important structural feature of applicant's aluminum shingle and cooperates with the interlocking curved edge portions and gutters as called for in the claim, so as to provide the improved shingle which has been a revolutionary development in the art of metal shingles."

The importance of the "cut-away drain slot disposed at the bottom of the shingle and spaced from the corner" was again emphasized in the remarks dated December 1, 1952 (see file wrapper, page 58).

Of particular interest is the affidavit which was filed by Mr. E. B. Birkenbeuel, patent attorney for the inventor, dated December 8, 1952, and appearing at pages 72 and 73 of the file wrapper. Particular attention is directed to the last paragraph of this affidavit, reading as follows:

"(4) Further, affiant considers it is manifest by utilizing the aforesaid novel interlocking shingle structure on all four sides of the shingle and providing a drain slot in the lower edge flap which slot is so spaced or offset from the side edges of the shingle structure that there is substantially no possibility of water permeating through a roof structure fabricated from the aforesaid aluminum shingle structure."

**Korter Never Intended the Term "Drain Slot" to be
Synonymous with the Term Such as "Open Gutter End"**

Korter on cross-examination (Tr. 160, 161) testified as follows:

"Q. Are the drain slots 21 shown in your patent necessary to accomplish the result which your patent teaches? Do you have a copy of your patent before you?"

"A. Yes.

"Q. If there were no drain slots such as 21, would a shingle function the same as your shingle?"

"A. As I explained in the early conversation, we had openings on the ends to act as drain slots, but they were not adequate in all operations. That is why I included this new improved drain slot to take care of all conditions."

The inventor previously testified (Tr. 150) to the effect that the openings provided at the ends of his earlier shingles tended to clog up because of wind and dust, which was the reason for his putting the drain slots in the gutter.

Moreover, Korter's testimony was corroborated by plaintiff's expert, Mr. Max C. Richardson, who testified on direct examination (Tr. 260) that Miller (DX 31) did not show any drain slot disposed in the gutter.

"Q. Does Miller show a drain slot disposed in the gutter of the shingle?"

"A. No sir."

It is clear, therefore, that the inventor was well aware of the fact that the claim as allowed to him by the United States Patent Office was positively and definitely restricted to a combination including a drain slot and that the claim was not worded broadly enough to cover a combination omitting a drain slot but providing instead merely an open-ended gutter.

Korter Cannot Resort to the Doctrine of Equivalents to Recapture That Which Was Required to be Given Up in Order to Obtain a Patent

The law on file wrapper estoppel is so fully developed and virtually unanimous, no lengthy discussion is deemed necessary. Reference is made to only a few leading cases, including *Smith v. Magic City Kennel Club*, supra. The facts in this last-mentioned case are briefly summarized as follows: The patentee owned a patent upon apparatus for use in connection with dog races and more particularly to the mechanism for conveying the rabbit lure around the track. The patent contained a number of claims, all of which were expressly limited to a combination comprising a conveyor mechanism with an arm extending horizontally outwardly over the race track and a lure or quarry mounted on the outer end of the arm, with a wheel engaging the ground rotatably supporting the outer end of the arm.

The patentee brought suit against another party alleging infringement of his patent by reason of another apparatus consisting of a conveying mechan-

ism extending around a race track with an arm extending horizontally over the track and supporting a rabbit or other lure on the outer end of the arm. No wheel was provided in this latter apparatus for supporting the outer end of the arm upon the ground as was incorporated in the patented device.

The Supreme Court of the United States noted that the patentee originally asked the United States Patent Office for the allowance of broader claims but such claims were rejected on the basis of prior art patents and were subsequently either amended or cancelled. All of the claims which were ultimately granted by the Patent Office included an express stipulation in each calling for the wheel rotatably mounted near the end of the arm. There is no question raised whatsoever but that the rigid arm structure omitting the wheel performed in substantially the same manner as the patented device having the ground-engaging wheel at the outer end of the arm but, nevertheless, the Court held that the terms of the claims were binding upon the patentee.

“The case, in our opinion, thus calls for the application of the principle that where an applicant for a patent to cover a new combination is compelled by the rejection of his application by the Patent Office to narrow his claim by the introduction of a new element, he can not after the issue of the patent broaden his claim by dropping the element which he was compelled to include in order to secure his patent. *Shepard v. Carrigan*, 116 U. S. 593, 597.

“As this court said in *I.T.S. Rubber Company v. Essex Rubber Company*, 272 U. S. 429, 443: ‘If dissatisfied with the rejection he should pursue his remedy by appeal; and where, in order to get his patent, he accepts one with a narrower claim, he is bound by it. *Shepard v. Carrigan*, supra, 597; *Hubbell v. United States*, 179 U. S. 77, 83. Whether the examiner was right or wrong in rejecting the original claim, the court is not to inquire. *Hubbell v. United States*, supra, 83. The applicant having limited his claim by amendment and accepted a patent, brings himself within the rules that if the claim to a combination be restricted to specified elements, all must be regarded as material, and that limitations imposed by the inventor, especially such as were introduced into an application after it had been persistently rejected, must be strictly construed against the inventor and looked upon as disclaimers. *Sargent v. Hall Safe & Lock Company*, 114 U. S. 366; *Shepard v. Carrigan*, supra, 598; *Hubbell v. United States*, supra, 85. The patentee is thereafter estopped to claim the benefit of his rejected claim or such a construction of his amended claim as would be equivalent thereto. *Morgan Envelope Company v. Albany Paper Company*, 152 U. S. 425, 429.’

“The petitioner resorts to the doctrine of equivalents, insisting that the rigid horizontal arm of the respondents is to be treated as the equivalent of the arm of the patent, and that the limiting specifications of the claim may be ignored. What has already been said disposes of this contention, for where a patentee has nar-

rowed his claim, in order to escape rejection, he may not 'by resort to the doctrine of equivalents, give to the claim the larger scope which it might have had without the amendments which amount to disclaimer.' *Weber Electric Company v. Freeman Electric Company*, 256 U. S. 668, 677, 678; *I.T.S. Rubber Company v. Essex Rubber Company*, *supra*."

Smith v. Magic City Kennel Club, *supra*.

The above case was followed and affirmed by the Ninth Circuit in *Lensch v. Metallizing Company of America et al*, *supra*. Additional Ninth Circuit cases along the same lines are the following:

"In view of the prior art and the history of claim 3 of the patent, the patentee is only entitled, at most, to the precise device mentioned in the claim. *Boyd v. Janesville Hay Tool Co.*, 158 U. S. 260. As so construed, claim 3 of the patent is not infringed by appellant and it therefore becomes unnecessary to discuss further or decide the question of the validity of claim 3 of the patent in suit."

Deats Sash and Door Company v. George L. Eveleth and Arcadia Sash and Door Company, Ltd., 9 Cir., 22 USPQ 211, 212; 72 F. (2d) 100, decided July 10, 1934.

"* * * The file wrapper contains evidence that the inventor understood this element of his claim in the narrower sense. During the proceedings before the Patent Office, two of the claims were rejected on Anderson, No. 811,812, and the inventor undertook to differentiate An-

derson's invention, saying: 'Anderson . . . does not show a packing having a flange clamped in the sleeve.' (Anderson employed a U packing fitted into a seat similar to the one found in appellants' device.) While it is the rule of this circuit that admissions made by the applicant to the examiner are not to be used to narrow the scope of his claim unless he has made changes in his application pursuant to the examiner's suggestions, yet the proceedings may be used to aid in construing the claim."

Warren Bros. Co. v. Thompson, 9 Cir., 293 F. 745.

"We conclude that the allegedly infringing device employs as one of its elements a packing different from that described in Lanninger, and that the two packings do not function in the same way. Appellees attempt to minimize the differences, but we think they are sufficiently substantial to spell noninfringement. Lanninger's combination is not entitled to any broad range of equivalents."

Schnitzer et al., doing business as Alaska Junk Company v. California Corrugated Culvert Company et al., 140 F. (2d) 275, 60 USPQ 222, 223 (1944).

In a recent case, *D. & H. Electric Co. v. M. Stephens Mfg., Inc.*, supra, this Court held that there was no infringement, even though validity was not contested, on the ground that ribs in the accused device varied from one to five degrees from perpendicular

and the claim called for such ribs as being "substantially at right angles." The Court referred to the file wrapper of the patent in suit to determine that the novel feature claimed by the invention was the right angular position of the ribs. The Court said, page 29:

"Having asserted the novelty of the right angle principle in order to secure the patent appellant cannot now expand his coverage to include other claims which were denied him in the proceedings before the Patent Office. This is simply the exercise of the doctrine of 'file wrapper estoppel'—the gravamen of which is that an applicant who acquiesces in the rejection of his claim, and accordingly modifies it to secure its allowance will not subsequently be allowed to expand his claim by interpretation to include the principles originally rejected or their equivalents."

Likewise, Korter should not be permitted to expand his claim to include that which was originally rejected. The abandonment of his first application (DX 28) and his cancellation of claims in the application of the patent in suit (DX 29) were express disclaimers of any drainage means such as open corners at the ends of the gutter like those of the accused shingle.

As the Court of Appeals for the Seventh Circuit recently said in *Kromer v. Reigel Textile Corp.*, 227 F. (2d) 741, 107 USPQ 317, 319, 320:

"In our view, it is a clear case for the applica-

tion of the doctrine of file wrapper estoppel, which the District Court did not discuss or refer to. * * * In order to hold infringement it would be necessary to ignore an essential element of the claim, the insertion of which enabled plaintiffs to procure its allowance. It would also result in a resurrection of the claims rejected by the examiner in view of the prior art.”

This Court further held in *D. & H. Electric Co. v. M. Stephens Mfg. Inc., et al*, supra, that file wrapper estoppel applies even though the Patent Office erroneously rejected claims which were subsequently cancelled.

“Nor are we impressed by appellant’s reliance upon the feature embodied in the greater helical angle of the ribs of the coupling device, as compared with the helical angle of the thread of the conduit. Examination of the prior art considered by the patent examiner reveals that the principle of joining threads or ribs of a greater helical angle with those of a lesser helical angle, or the joining of unfitting threads in order to secure a locking fit, is not new. In any event, the inventor’s claim on this score was rejected with his acquiescence, and by reason of the file wrapper estoppel he cannot now claim it, even though the action of the patent office in rejecting it was erroneous.”

In view of the established law on the subject, it is clear that the claim of the Korter patent must be restricted by file wrapper estoppel to a shingle structure including a “drain slot” in the gutter thereof.

It matters not as to whether the Patent Office erroneously rejected the broader claims omitting reference to the drain slot. Suffice it that the broader claims were cancelled and the narrower one accepted, and the patentee is thereby bound. The patentee cannot by resort to the doctrine of equivalents now contend that the defendants' shingle, which has no drain slot, infringes, and especially not when the defendant employs an open-ended gutter in exactly the same manner as employed in the prior art.

INVALIDITY

Propositions of Law Relied Upon in Support of Invalidity

The Court should not stop with merely finding noninfringement but should also adjudicate the validity of the patent.

Sinclair & Carroll Co., Inc. v. Interchemical Corp., 325 U.S. 327, 65 USPQ 297.

To be patentable, a combination of individually old elements must be new and elements must cooperate to produce new and unexpected or unobvious result.

Powder Power Tool Corp. v. Powder Actuated Tool Co., CA 7th, 1956, 108 USPQ 155.

In order for a combination patent to be upheld, there must be a specific finding that the old elements which made up this device perform an additional and different function in combination, than

they perform out of it.

Kwikset Locks, Inc. v. Hillgren, supra.

Argument in Support of Invalidity

While it is inescapable that defendants' shingle voids infringement of the shingle claimed by the patent in suit for reasons previously mentioned, the Court should not stop merely with a holding of noninfringement. The Court should inquire further into the merits of the patent in suit and, it is urged, find the same invalid on grounds of lack of patentable invention. This is in accordance with the recommendation made by the Supreme Court in the decision of *Sinclair & Carroll Co., Inc., v. Interchemical Corp.*, *supra*. In this case the Court held:

“There has been a tendency among the lower federal courts in infringement suits to dispose of them where possible on the ground of noninfringement without going into the question of validity of the patent. *Irvin v. Buick Motor Co.*, 88 F. 2d 947, 951 (33 USPQ 60, 61); *Aero Spark Plug Co. v. B. G. Corp.*, 130 F. 2d 290 (54 USPQ 348); *Franklin v. Masonite Corp.*, 132 F. 2d 800 (56 USPQ 71). It has come to be recognized, however, that of the two questions, validity has the greater public importance. *Cover v. Schwartz*, 133 F. 2d 541 (56 USPQ 37, 188), and the District Court in this case followed what will usually be the better practice by inquiring fully into the validity of this patent.”

As previously pointed out herein, and as admitted by the inventor at the trial in both direct examina-

tion (Tr. 150) and upon cross-examination (Tr. 160-161), and as further supported by the specification of the patent in suit as well as by allegations made during the prosecution of the application before the United States Patent Office, the alleged improvement invention in the present patent is restricted solely to the provision of a cut-out drain slot in the shingle gutter.

Such an improvement, if it is an improvement, is not entitled to a patent. As this Court said in *Berkley Pump v. Jacuzzi*, 214 F. 2d 785, f.n. 788:

“We emphasized the principle that a change in form, proportion or degree does not reflect patentable invention ‘even though changes . . . produce better *results*.’ (Emphasis supplied). In view of the cases we have noted we think that this principle must now be regarded as firmly imbedded in patent law.”

Certainly, there can be no invention in the idea that water will drain through a hole. It is not invention to increase the size of a hole where the prior hole would not permit the escape of the liquid sought to be drained, nor in providing two holes instead of one. The problem to be solved is so simple that any child would immediately perceive its solution. It is obvious that drain holes have been provided in gutters of buildings for transferring water from the gutter to a downspout as long as gutters have been in existence. While it may well be that no one has heretofore provided a drain slot in the

utter of a metal shingle before Korter, such an obvious expedient does not rise to the dignity of invention. Certainly no new or unexpected result was accomplished by Korter by the provision of such drain slot.

In the recent case of *Powder Power Tool Corp. v. Powder Actuated Tool Co.*, supra, the Court stated:

“To be patentable, a combination of individually old elements must be new, and those elements must cooperate to produce a new and unexpected or unobvious result.”

See also:

Lincoln Engineering Co. v. Stewart-Warner Corp., 303 U.S. 545, 37 USPQ 1;

Great Atlantic & Pacific Tea Co. v. Supermarket Equipment Corp., supra.

In the further recent cases decided by the Court of Appeals for the Sixth Circuit, *Bobertz v. General Motors Corporation*, 107 USPQ 338, 228 F. 2d 94, the Court had before it a patent relating to an automobile hood of transparent material. Aside from the fact that the hood was made of transparent material, the construction was substantially similar to conventional hood structures. The Court held the patent invalid on the grounds that no new results were accomplished in the patented structure:

“It seems almost idle to reiterate that quite a high standard of invention is now exacted to

sustain combination claims embracing old elements in a patent. This was made plain fourteen years ago in the opinion of the Supreme Court in *Cuno Engineering Corp. v. Automatic Devices Corp.*, 314 U. S. 84, 90-92, 51 USPQ 272-275-276. Any lingering doubt as to the intention of the Supreme Court to require strict rather than liberal construction of combination claims was certainly dispelled by its opinion in *Great Atlantic & Pacific Tea Company v. Supermarket Equipment Corp.*, 340 U. S. 147, 154, 87 USPQ 303, 306, where the majority opinion concluded that the standard of invention used in the lower courts was less exacting than that required where a combination was made up entirely of old components."

All of the Elements of Korter's Claims Are Shown in the Prior Art

We particularly call attention to Miller patent No. 2,243,256 (Tr. 317, DX 31) which has all the elements called for in the Korter patent including the corrugations, as is readily seen from the following comparison between the parsed claim of the Korter patent and Miller:

Korter 2,631,552

Miller 2,243,256

"An aluminum shingle of rectangular shape, said shingle comprising

- a substantially flat sheet of metal of uniform thickness and the body of which lies substantially in the same plane,
- corrugations in said shingle spaced laterally of the shingle, said corrugations forming ridges on the inner face of the shingle,
- the lateral edges of the shingle being reversely turned on opposite faces of said shingle providing
- curved outer edge portions for interlocking the shingle with laterally adjacent shingles,
- the top and bottom edge portions of the shingle being reversely turned on opposite faces thereof, each of said top and bottom turned edge portions comprising
- shingle A
(Figs. 1 and 2)
- transverse ridges b', c', etc.
- *
- reversely turned flanges 5, 7, 9, 11
- edge portions of flanges 5, 7, 9, 11
- reversely turned flanges 9, 11

*While Miller shows corrugations b', c', etc., on the outer face, Birch et al shows corrugations 22a on the *inner* face identical to Korter.

- | | |
|---|--------------------------------------|
| 6. a half round portion,
one side of which is tan-
gent to the plane of the
shingle and
the other side of which
terminates in | rounded portions of
flanges 9, 11 |
| 7. a reversely curved por-
tion,
the turned bottom por-
tion forming | curved portion of
flange 11 |
| 8. a gutter and
the reversely curved
portion thereof being
engageable with a | under-turned flange
11 |
| 9. reversely curved top edge
portion of a
lower adjacent shingle
to form a close fit there-
between, | overtured edge of
flange 9 |
| 10. a fastening tab
integral with the shingle
and extending from an
upper corner of said
shingle for securing the
same to a roof structure,
and | tab t |

1. a drain slot

disposed in the gutter of said shingle for draining water therefrom,

said corrugation ridges on the inner face of the shingle adapted

to space said reversely turned top edge portion of the lower adjacent shingle from the inner face of said shingle so that moisture can travel along the inner face of the shingle and into said gutter."

* * open corner 3

P. 1, col. 1, lines 9-18;
p. 2, col. 2, lines 64-73

* * * upper shingle spaced from over-

turned edge of flange 9 by the heads of the nails 15, 17

See also the schematic drawing attached hereto as Appendix C which further illustrates the Miller shingle and compares the essential features thereof with defendants' shingle. This comparison shows that all of the features of defendants' shingle are found in the prior art.

The British patent to de Sincay, No. 399, patented in 1869 (Tr. 348, DX 38), also shows a metallic shingle of the interlocking type having reversely turned opposite edges and an open corner K for draining "any water which may have penetrated to a certain extent between the tiles under the action of

**Miller's corner 3 is not a drain slot like Korter's slot 21 but substantially identical with the open corner of the accused shingle.

**Corrugations on the inner face as taught by Birch et al, Fig. 14, provide spacing identically as called for.

high wind will run off to the lower corner of the tile and so on to the roof" (specification, p. 4). This means that any water on the underside of the de Sincay shingle, such, for instance, as water of condensation, would run down through the shingle to the opening K and then on to the face of the next lower shingle. Therefore, this shingle operates inherently in the same way and for the same purpose as Korter's patented shingle.

Other very old patents which show flat, rectangularly shaped metal shingles having reversely turned opposite edges adapted to lock into adjacent shingles, nailing tabs, and open corners through which any water that got under a shingle would naturally drain, are Crawford No. 553,514 (Tr. 313, DX 30), the two Lewando patents Nos. 124,963 and 140,928 (Tr. 323, 326, DX 32, 33), Clawson No. 1,026,202 (Tr. 329, DX 34), Slaughter No. 220,181 (Tr. 333, DX 35), and Cusack No. 303,921 (Tr. 337, DX 36).

It should be noted that the Crawford patent was not cited by the Patent Office against the application which matured into the patent in suit although it was cited against the abandoned Korter application (DX 28).

Attached hereto as Appendix C is a schematic drawing comparing the structural elements of defendants' shingle with a prior art shingle, for example, that shown by Miller, patent No. 2,243,256, attention being directed by suitable legends to the

various elements as called for in the claim of the Korter patent. It will be obvious that each of the elements called for by Korter finds a full and complete response in the prior art and hence the Korter patent must be declared invalid.

Commercial Success Cannot Save an Invalid Patent

In the present case some evidence of commercial success of the plaintiff corporation was admitted (Tr. 155). However, where invention is lacking, commercial success cannot save an invalid patent. The United States Supreme Court held in the case of *Angers v. Ostby & Barton Company et al*, 335 U.S. 60, 80 USPQ 32:

“Numerous licenses under the patent were issued in the United States and other countries. The fact that this process has enjoyed considerable commercial success, however, does not render the patent valid. It is true that in cases where the question of patentable invention is a close one, such success has weight in tipping the scales of judgment toward patentability. *Good-year Tire & Rubber Co. v. Ray-O-Vac Co.*, 321 U. S. 275, 279 (60 USPQ 386, 388), and cases cited in footnote 5 thereof. Where, as here, however, invention is plainly lacking, commercial success cannot fill the void. *Dow Chemical Co. v. Halliburton Co.*, 324 U. S. 320, 330 (64 USPQ 412, 416); *Toledo Pressed Steel Co. v. Standard Parts, Inc.*, 307 U. S. 350, 356-57 (41 USPQ 593, 595); *Textile Machine Works v. Hirsch Co.*, 302 U. S. 490, 498-99 (36 USPQ 37, 40); 1 Walker, Patents (Deller, 1937) §44. Little profit would come from a detailed examination of the cases cited above or

those indicated by reference. Commercial success is really a make-weight where the patentability question is close.

“Increased popular demand for jewelry or alertness in exploitation of the process may well have played an important part in the wide use of the patent. We cannot attribute Jungersen’s success solely or even largely to the novelty of his process.”

See also:

Alex Lee Wallau, Inc. v. J. W. Landenberger,
121 F. S. 555 (101 USPQ 383).

Chief Judge Clark, C. A. 2nd, cited the Jungersen decision with approval in the recent case of *Gentzel et al v. Manning*, supra:

“We perhaps should note the usual argument for validity because of alleged commercial success. Beginning in 1939 or perhaps earlier, Foster Engineering Company, the sole licensee, has sold about 3,000 Gentzel valves at prices ranging from \$300 to \$1,000, or a total of \$1,500,000, for which Gentzel has received royalty payments of about \$90,000. This somewhat modest success for a large operation over a long period does not carry conviction of unique worth. As we have again pointed out, *Kleinman v. Kohler*, 2 Cir., 108 USPQ 301, we must not be overnaive in evaluating such claims; and even a greater measure of success would not establish validity in the face of the clear showing here of anticipation by the prior art. *Jungersen v. Ostby*

& Barton Co., 335 U. S. 560, 567, 80 USPQ 32, 34-35, affirming *Jungersen v. Baden*, 2 Cir., 166 F. 2d 807, 811, 76 USPQ 488, 491. * * *.”

The above language and reasoning is particularly *propos* the present case.

**DEFENDANT, BERGMAN, IS NOT PERSONALLY
LIABLE**

Conclusion of Law IV (Tr. 52) and the Decree (Tr. 54) are to the effect that defendant, Harry X. Bergman, is personally liable for the alleged infringement of the Korter patent and an accounting is ordered against him.

Harry X. Bergman is the president and general manager of defendant, Perma-Lox Aluminum Shingle Corporation, and as such was in general charge of the design of the shingles which this corporation sold (Tr. 234).

An officer or director of a corporation is not individually or personally liable for infringement of a patent by the corporation where he has not acted beyond the scope of his office.

Powder Power Tool Corp. v. Powder Actuated Tool Co., supra;

Kinsel Corp. v. Haupt, 25 F. 2d 318;

Dangler v. Imperial Mach. Co., 11 F. 2d 945;

D'Arcy Spring Co. v. Marshall Ventilated Mattress Co., 259 Fed. 236.

There is no evidence that Mr. Bergman acted at any time, with respect to the alleged infringement of the Korter patent, other than as an officer of the Perma-Lox Corporation. There is no suggestion that he acted beyond the scope of his duties as president of defendant, Perma-Lox. Mr. Bergman should not be held to be personally and individually liable even if there is infringement of the patent in suit.

CONCLUSIONS

1. Korter was not the first inventor of a metal shingle.

2. Korter was not the first inventor to provide a metal shingle with reversely curved edge portions for loosely interlocking shingles together.

3. Korter was not the first inventor to provide a metal shingle with a nailing tab projecting from an upper corner.

4. Korter was not the first inventor to provide a metal shingle with stiffening ribs or corrugations extending the full height of the shingle.

5. Korter was not the first inventor to provide a metal shingle in which the lower interlocking flange formed a gutter.

6. Korter was not the first inventor to provide a metal shingle in which the gutter is provided with an opening for permitting drainage of water therefrom onto the outer surface of the lower shingle.

7. Korter was not the first inventor to provide a space between the lower end of one shingle and the curved flange at the upper end of the underneath shingle whereby condensation water could flow along the lower surface of the shingle into the gutter.

8. Korter was not the first inventor to provide a metal shingle with corrugations forming ridges on the inner surface of the shingle throughout the full height thereof.

9. Each and every one of the above elements is fully disclosed by the prior art.

10. The one and only thing Korter devised was a slot in the shingle gutter as an adjunct to the conventional open gutter for increasing the total drainage outlet area.

11. Defendants' shingle is not provided with any slot in the gutter.

12. Korter is precluded by file wrapper estoppel from asserting that the term "drain slot" in his claim is entitled to a broad interpretation so as to encompass an open-ended gutter.

13. Since Korter's invention is an extremely narrow one, he cannot by resort to the doctrine of equivalents expand his claim so as to cover structures which do not include a drain slot.

14. All of the elements provided in Korter's shingle are old and function in the same manner as shown in the prior art.

15. In order for a combination of old elements to be patentable, they must cooperate in some new way so as to produce a new and unexpected result.

16. Korter's shingle does not function in any new way or produce any new or unexpected result, and therefore the patent in suit directed to such shingle is invalid.

17. Since it does not under any circumstance constitute invention to provide a drain hole in a gutter, the Korter patent is invalid.

18. The decree of the District Court should be reversed and the Korter patent held to be not infringed and invalid.

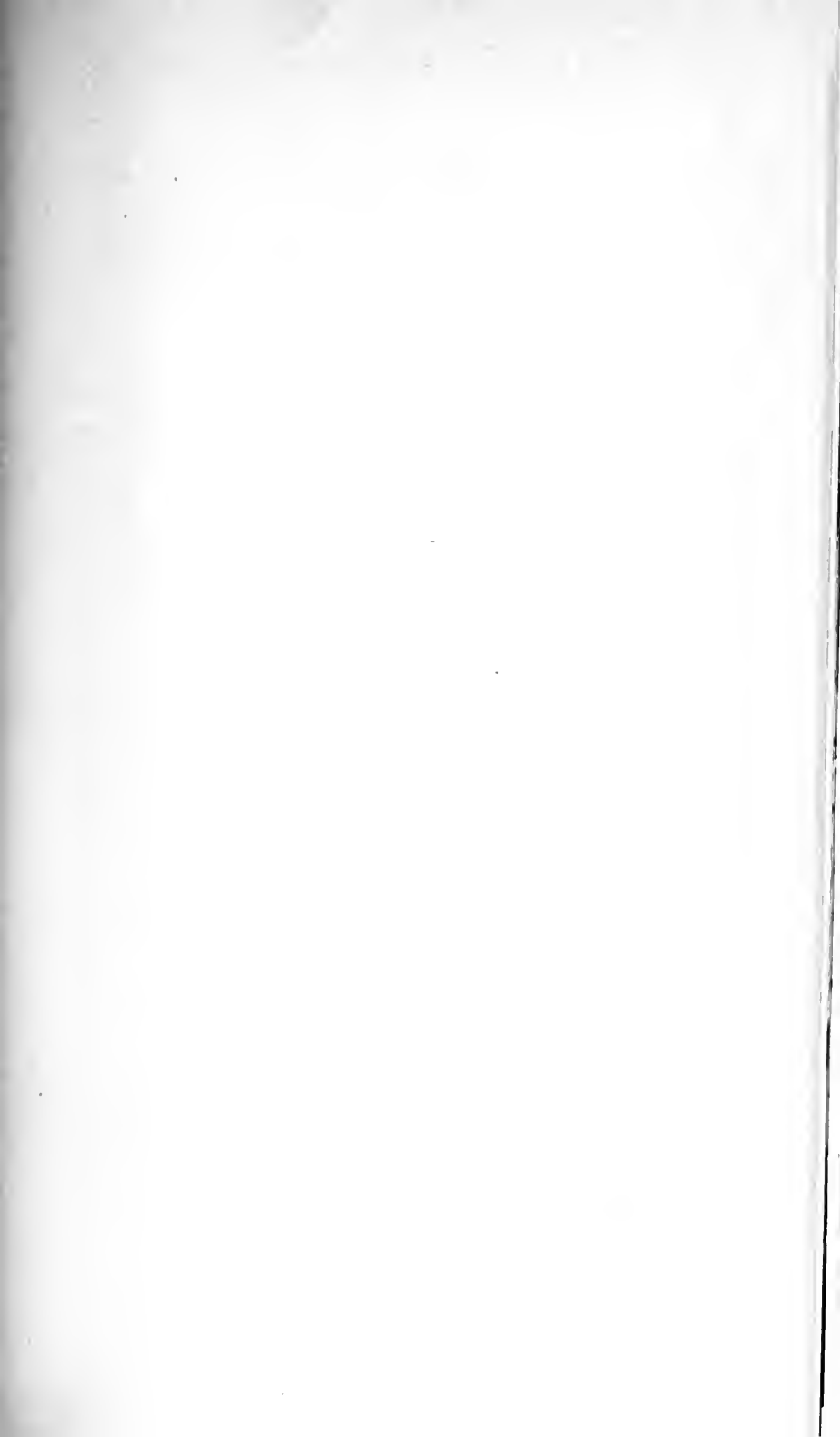
Respectfully submitted,

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Counsel for Appellants.



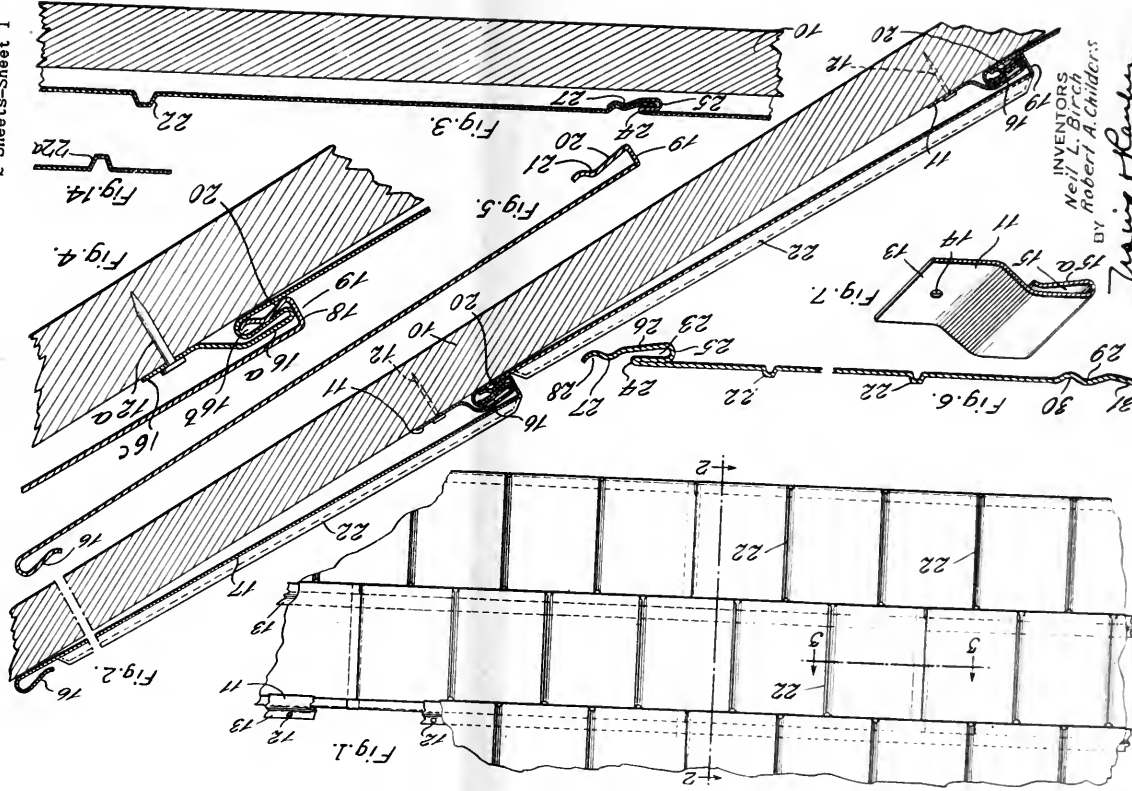
Sept. 19, 1939.

N. L. BIRCH ET AL
STRIP SHINGLE

2,173,774

Filed Dec. 20, 1937

2 Sheets-Sheet 1



INVENTORS
Neil L. Birch
By Robert A. Childers

Neil L. Birch



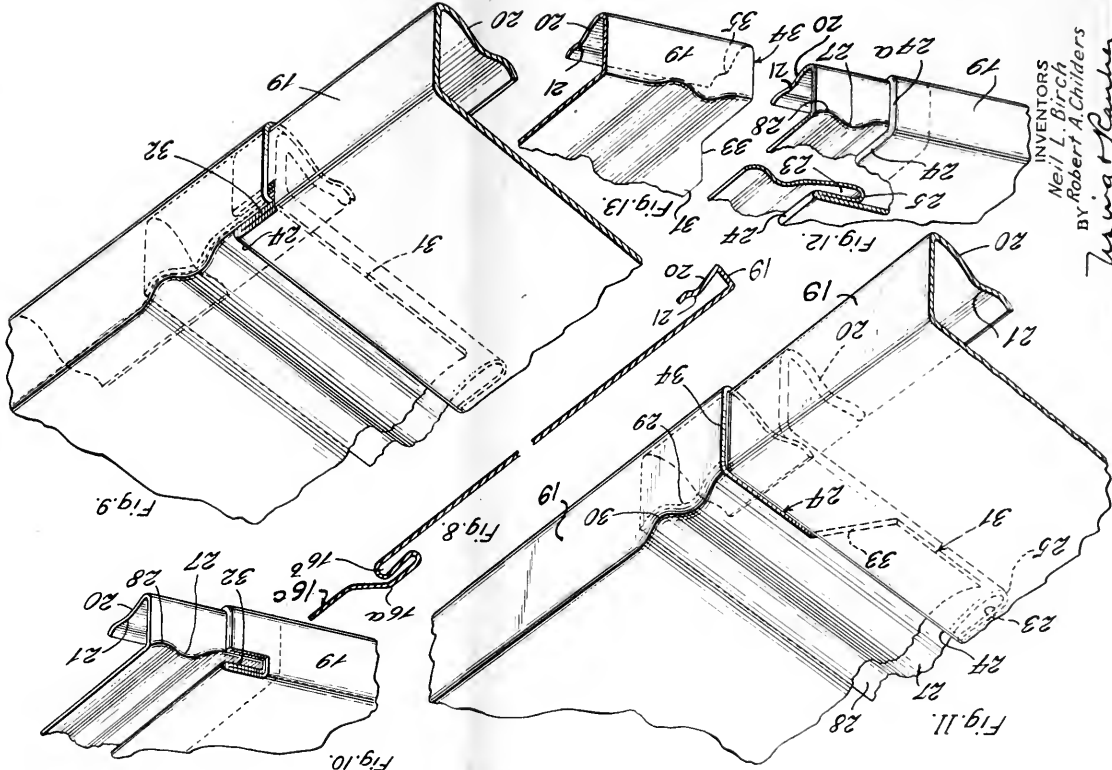
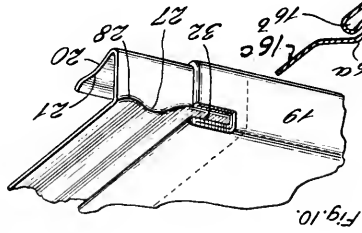
Sept. 19, 1939.

N. L. BIRCH ET AL
STRIP SHINGLE

2,173,774

Filed Dec. 20, 1937

2 Sheets-Sheet 2



INVENTORS
Neil L. Birch
By Robert A. Childers

W. W. & R. B. R. Co.



UNITED STATES PATENT OFFICE

2,173,774

STRIP SHINGLE

Neil L. Birch and Robert A. Childers,
Birmingham, Ala.

Application December 20, 1937, Serial No. 180,873

2 Claims. (Cl. 108—17)

This invention relates to improvements in weatherproof coverings adapted to be used either for roofing or siding and aims to provide an improved construction of metallic strip shingle, 5 which will have a good appearance and will simulate either shingled roofing or siding. Among the novel features herein described the improved shingle is formed of a long strip-like body or sheet as measured transversely, which is relatively shallow as measured from top to bottom. This body portion has oppositely bent hook portions at or near its top and bottom extremities and respective tongue and groove portions at its side edges, the groove portion at one edge extending around the bottom hook portion and the lower corner of the shingle being of such construction that the tongue of one shingle can be readily engaged with the grooved portion of a similar adjacent shingle and the hook portions of such interengaged shingles can telescopically overlap. This construction is secured either by 15 slitting one lower corner of the shingle or by cutting away or notching out the lower corner of the tongue and the part of the shingle adjacent thereto. These and other specific constructional features of the invention are hereinafter more fully described, claimed and illustrated in detail in the accompanying drawings, in which—

Fig. 1 is a plan view of a portion of a roof covered with strip shingles embodying the present invention; Fig. 2 is an enlarged section on line 2—2 of Fig. 1; Fig. 3 is a cross-section at right angles thereto on line 3—3 of Fig. 1, showing the manner of interlocking adjacent strip shingles at their side edges; Fig. 4 is an enlarged detail view illustrating a detailed modification; Fig. 5 is a detail view in cross-section of one of the shingles taken substantially on line 2—2 of Fig. 1; Fig. 6 is an enlarged detail view of a single shingle detached, taken on line 3—3 of Fig. 1, an intermediate portion being broken away so as to permit showing on a legible scale; Fig. 7 is a detail perspective view of a shingle-holding cleat shown in Fig. 2; Fig. 8 is a detail view of the type of shingle shown in Fig. 4, wherein the holding cleat is formed integral with the shingle at the upper end thereof; Fig. 9 is a perspective view showing the bottom corners of two contiguous shingles interlocked with one another along their bottom and side edges; Fig. 10 is a detail view of the lower corner of one of the shingles shown in Fig. 9; Fig. 11 is a perspective view showing the bottom corners of two contiguous shingles interlocked with one

of interlock; Figs. 12 and 13 are perspective views of the lower corners of the shingles shown in Fig. 11, the views being disposed substantially in the relative positions that a pair of shingles are adapted to occupy just prior to being interlocked with one another; Fig. 14 illustrates an alternative detail.

Referring in detail to the drawings, 10 represents decking or sheathing boards to which a weather surface covering of our invention is adapted to be applied. In the embodiment of the invention illustrated in Figs. 1 and 2, at spaced intervals, cleats 11 are secured to the roofing by nails or suitable fastening devices, indicated at 12. Each cleat is bent to the hook-like form shown in perspective in Fig. 12, the upper extremity 13 of the cleat being adapted to seat on the roof and having a plurality of perforations 14 therein to facilitate passage of the nails 12 therethrough. On its lower end, each cleat is bent around to the hook-like configuration shown in Fig. 7 and providing a throat 15 adapted to receive a top hook portion 16 of the strip shingle. The extremity of the hook portion 16, as shown in Fig. 2, enters the throat 15 and the coaction of the parts when assembled is such that the cleat prevents upward movement of the shingle.

Each shingle strip, illustrated generally by numeral 17 in the drawings, has a bottom hook portion 18 the wall 19 of which is substantially perpendicular to the surface of the body of the shingle. Extending inwardly and upwardly from the wall 19, there is a flange 20, which is bent so as to form the angular upwardly directed portion 21, which portion is designedly intended to make a yielding engagement with the wall 18 of the hooked portion of the cleat. When the parts are assembled, as in Fig. 2, it is therefore apparent that there is an interlock between the upper end of one shingle, the lower end of the shingle thereabove and the cleat which is nailed to the roof.

In the modification shown in Fig. 4, instead of utilizing a separate cleat nailed to the roof the upper end of the shingle strip is provided with an upper hooked portion 16*, which is formed by folding over the upper end of the shingle to the configuration shown in Fig. 8, so as to provide a securing flange 16* at the top of the shingle, which is adapted to be nailed to the deck of the roofing by a nail 12* shown in Fig. 4. In this embodiment of the invention, the flange 20 at the lower end of a coacting up-

engagement with the throat portion 18^b in much the same manner that the flange 20 interengages with the throat portion of the cleat of Fig. 2. The air space between the inclined flange of an upper shingle and the underlying surface of a lower shingle serves as a break to prevent capillary action, which would otherwise tend to draw water between the overlapped portions.

The strip shingles of our invention are relatively short, as measured from top to bottom, but are of considerable length, as measured from side to side. And to make such a long strip resemble several shingles, the length of the strip, as measured from side to side, is broken up by a plurality of division ridges 22, which give the long strip the appearance of a plurality of shingles. These division ridges may be upstanding as in Fig. 3 or alternatively they may be formed as depressions, such as shown at 22^a in Fig. 14. At the side edges, the shingles of our invention are interlocked and because of the interengagement of the hooked bottom end of the lower shingle with the upper end of another shingle special provision must be made to permit the ready assembly of the parts.

For interlocking the side edges of the contiguous shingle strips, we provide along one side edge of each shingle strip a locking groove 23, which is formed by folding the side portion of the shingle, as indicated at the fold 24 in Fig. 6. The side portion is again bent around, as indicated at 25, so as to form the lower wall por-

tion, hook portions, such as shown in either Fig. 2 or Fig. 4 and the side edges of the sheets will be bent to the configuration shown in Fig. 5, so as to provide the same arrangement of tongue and groove portions 31 and 33 and the depressed portions 29 and rib 30 for engagement with side bead 21 and indentation 28. In this modification, however, in order to facilitate the side to side interengagement of adjacent sheets, the tongue 31 along one edge of the sheet is cut away, so as to provide a notch, such as indicated at 33, in Figs. 11 and 13.

By notching out the lower end of the tongue 31, as indicated at 33 in Fig. 13 and by cutting off a corresponding portion from the lower end of wall 19 of the sheet, along the line 34 and continuing this cut-away portion along the line 35 of the flange 20, it will be apparent that, when the tongue 31 is inserted in the side groove 23, the edge of the notch can be moved into abutment with the folded edge 24 of the adjacent sheet. Similarly, the edges 34 and 35 of the cut-away portion of the lower ends of the shingle and flange can be abutted against the fold 24^a of the folded portion, where it extends downwardly to follow the configuration of the end wall 19 of the lower portion of the shingle.

In all embodiments of the invention illustrated, the strip shingle may be said to comprise a body portion with oppositely bent hook-like portions at the top and bottom extremities thereof and side portions shaped to provide a tongue on one side and a groove on the opposite side the tongues

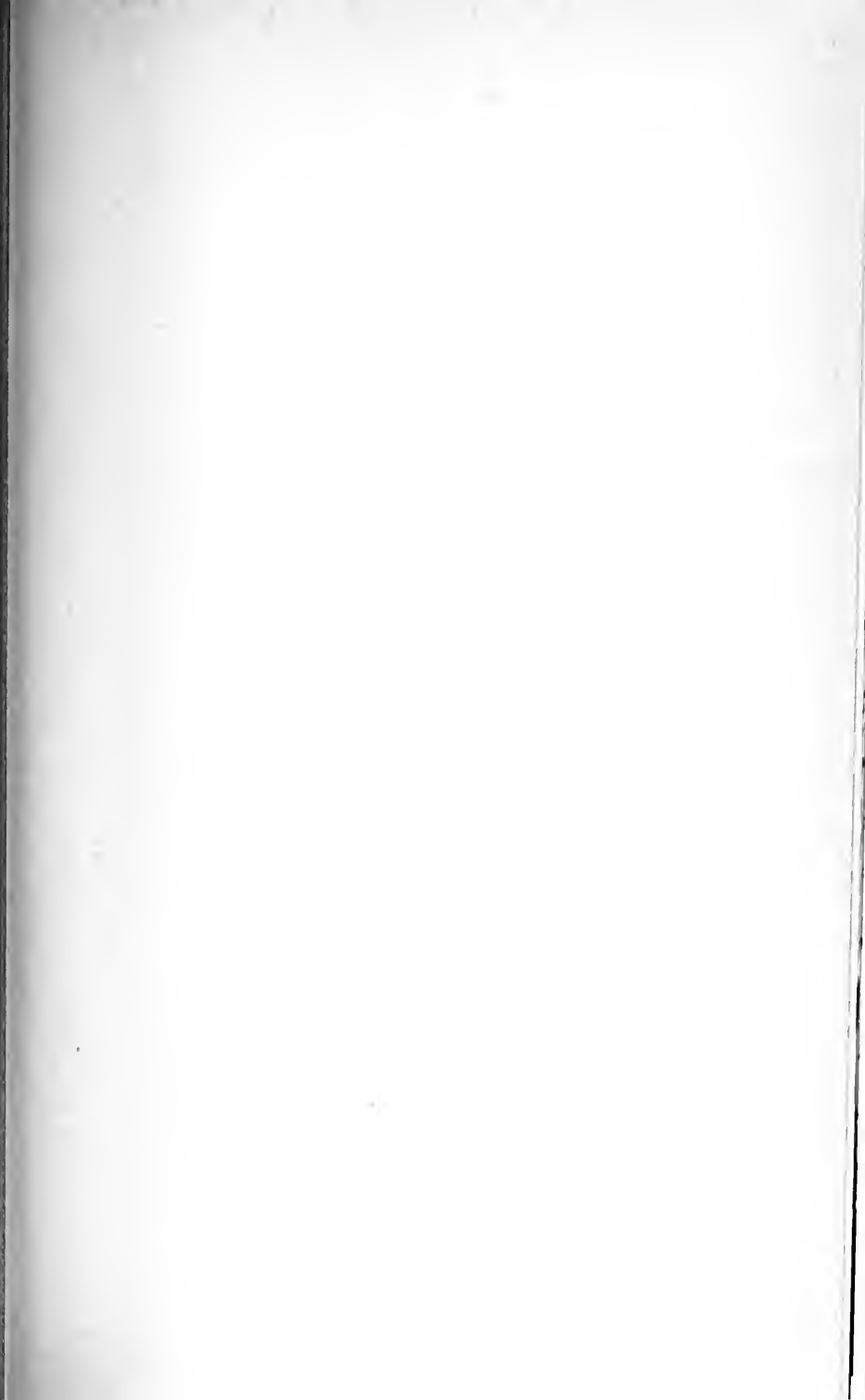
body having oppositely bent hook portions at its top and bottom extremities and side portions shaped to provide a tongue along one side edge of the sheet and a grooved portion along the opposite side edge of the sheet, the body of the sheet being bent adjacent such tongue and groove portions to an undulating form so as to provide a structure in which the contacting side portions of adjacent shingles will interlock with one an-

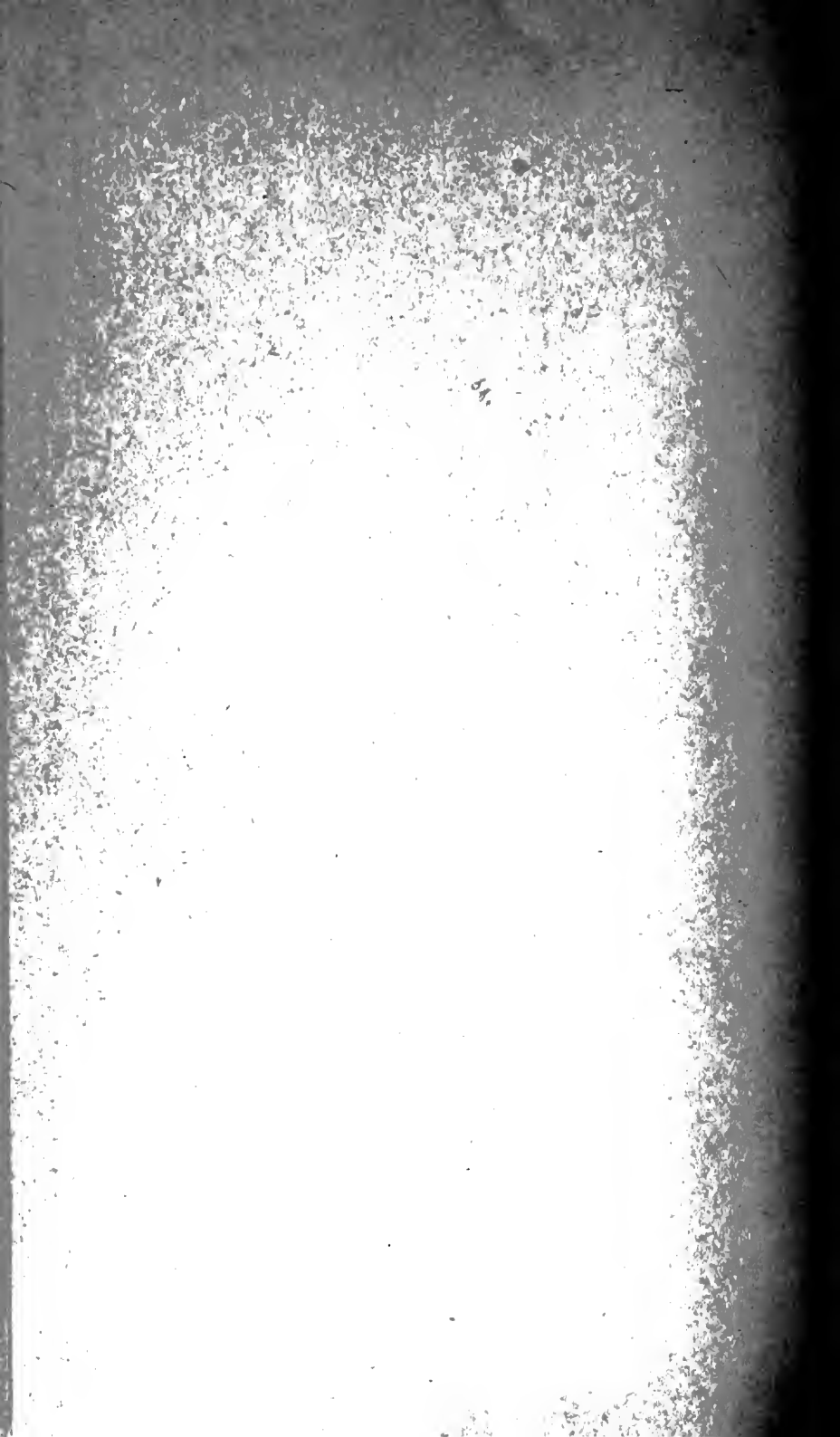
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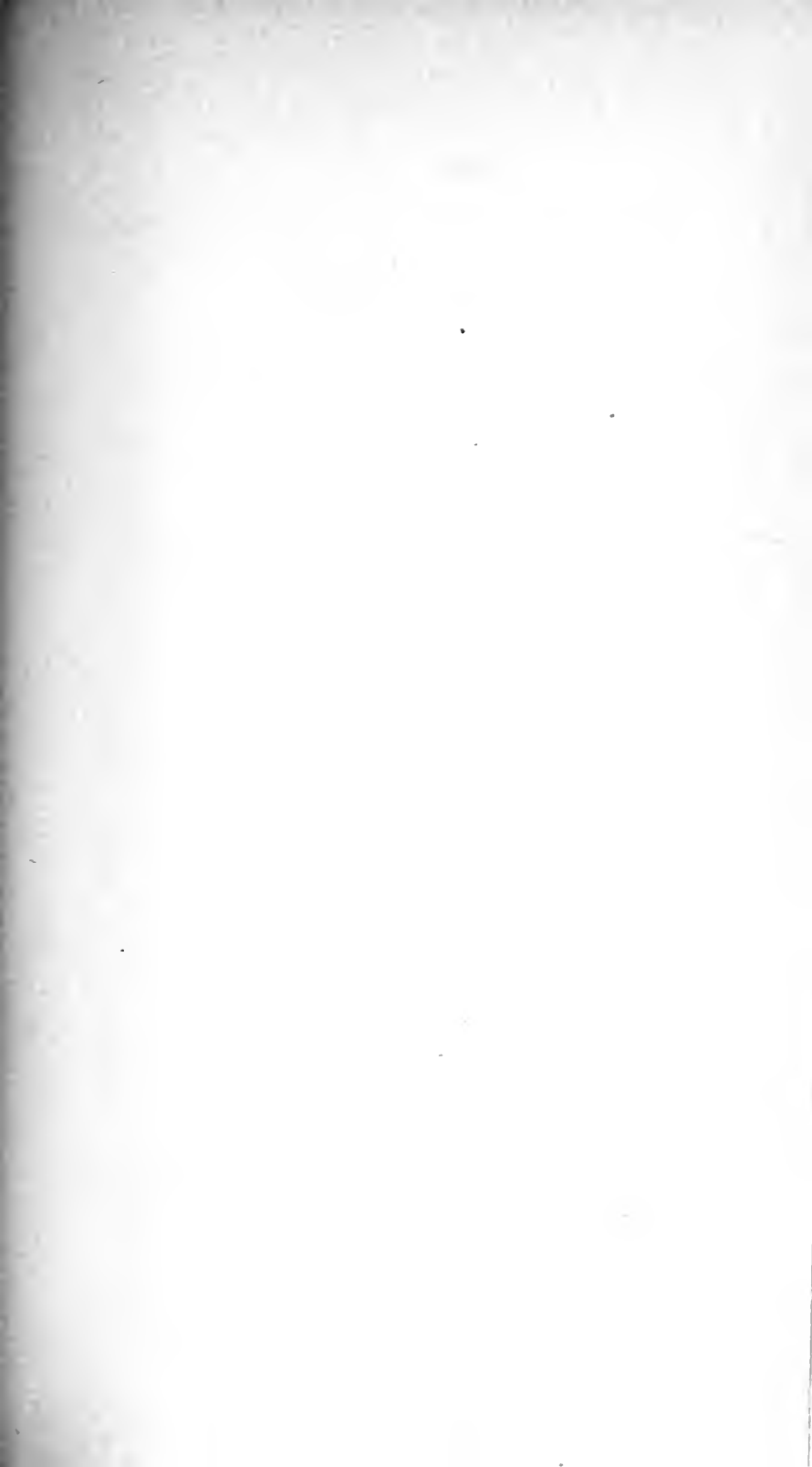
other in such a way as to resist lateral separation of the shingles, a lower corner of the shingle having a slit opening into the grooved portion thereof so that the tongue portion of one shingle can be engaged with the grooved portion of a similar shingle and the hooked portions of such interengaged shingles can telescopically overlap.

ROBERT A. CHILDERS.
NEIL L. BIRCH.











T. D. MILLER

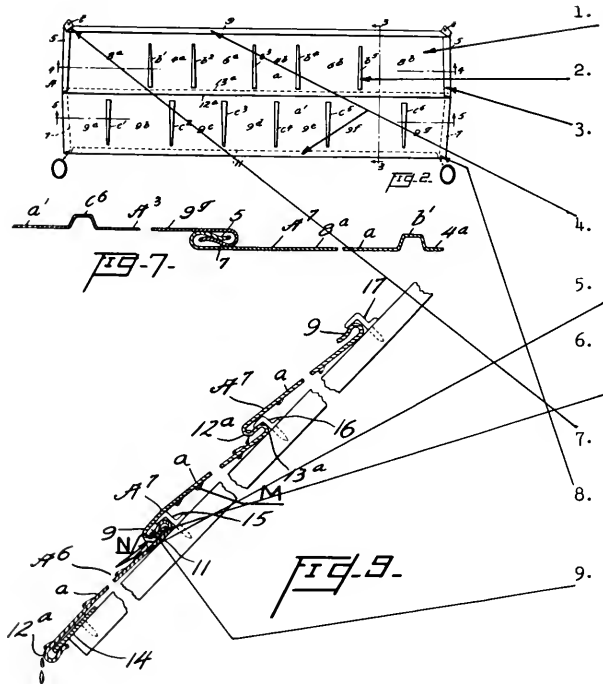
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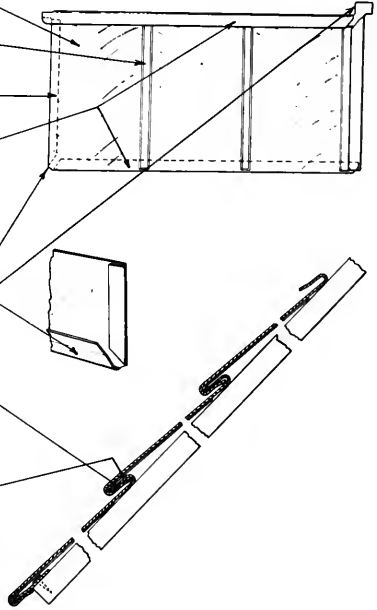
DEFENDANT'S SHINGLE
(PX 3)

COMPARISON BETWEEN SHINGLES
OF MILLER AND DEFENDANT

METAL ROOF COVERING



1. A flat, rectangular shaped metal shingle
2. Corrugations in said shingle spaced laterally of shingle
3. Lateral edges reversely turned on opposite faces providing curved edge portions for interlocking with adjacent shingles
4. Top and bottom edges reversely turned on opposite faces
5. Turned bottom portions forming a gutter
6. Reversely curved portion thereof engageable with reversely curved top edge portion of lower shingle to form close fit therebetween
7. A fastening tab for securing shingle to roof
8. The gutter having an open end for permitting drainage of water therefrom
9. The inner face of the upper shingle being spaced from reversely turned top edge of lower shingle so that moisture can travel along the inner face of the shingle into gutter.



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United States Court of Appeals

FOR THE NINTH CIRCUIT.

HARRY X. BERGMAN, PERMA-LOX ALUMINUM SHINGLE CORPORATION and VICTOR H. LANGVILLE, doing business under the assumed name of LANGVILLE MANUFACTURING COMPANY,

Appellants,

vs.

ALUMINUM LOCK SHINGLE CORPORATION
OF AMERICA,

Appellee.

APPEAL FROM THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF OREGON.

BRIEF OF APPELLEE.

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FILED

JUL 18 1956

PAUL P. O'BRIEN, CLERK



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No. 14,968.

United States Court of Appeals

FOR THE NINTH CIRCUIT.

HARRY X. BERGMAN, PERMA-LOX ALUMINUM SHINGLE CORPORATION and VICTOR H. LANGVILLE, doing business under the assumed name of LANGVILLE MANUFACTURING COMPANY,

Appellants,

vs.

ALUMINUM LOCK SHINGLE CORPORATION
OF AMERICA,

Appellee.

APPEAL FROM THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF OREGON.

BRIEF OF APPELLEE.

Since appellants' "Statement of the Case" includes considerable controversial matter, going far beyond a mere statement of the issues involved, it becomes necessary for appellee to give his own statement under the rules.

I. STATEMENT OF THE CASE.

The appellee (Aluminum Lock Shingle Corporation of America) brought this action against Harry X. Bergman, Perma-Lox Aluminum Shingle Corporation, and Victor H. Langville, doing business under the assumed name of Langville Manufacturing Company, for infringement of

the Korter patent No. 2,631,552 (PX 1*). The patent is for "Aluminum Shingle" and the single claim is relied on as being infringed. The complaint also charged unfair competition and prayed for a permanent injunction and a decree enjoining defendants, and each of them, from competing unfairly with plaintiff, and for recovery of general and special damages due to the wilfulness of the infringement, also for recovery of costs and attorneys' fees.

The defendants have denied the charges, contending that the patent claim is not valid and is not infringed, and also counterclaimed for unfair competition.

By Pre-trial Order (Tr. 35), Judge Fee directed that the unfair competition charges by both parties be held in abeyance until the final determination of the validity and infringement issues. Certain exhibits including prior art patents, explanatory charts, samples of shingles and contentions were offered by the parties and became a part of the trial record and were stipulated into the record of appeal.

At the trial, all of the parties testified on their own behalf and, in addition, Max Richardson, a patent agent of Portland, served as an expert witness for party Korter. Victor H. Langville, one of the defendants, served as an expert witness in his own behalf.

A demonstration (simulating the effect of water condensate) was put on in the courtroom by party Korter to show the similarity of the Korter and Bergman shingles, and party Bergman put on a demonstration in an attempt to show the similarity between the Korter shingle and the

* PX is used to designate Plaintiff's Exhibit; DX is used to indicate Defendants' Exhibit; Tr. indicates page of transcript of the appeal record; emphasis in the decisions added unless otherwise indicated.

Crawford patent. No other physical demonstrations were made.

The trial court found in favor of Korter (appellee) as to both issues of validity and infringement, granting a permanent injunction and an accounting against each of the defendants, separately and collectively. The taxation of costs and attorneys' fees were deferred until entry of the final decree upon the remaining issues (unfair competition) to be disposed of.

A. Weakness of Anticipation of Korter Shown by Shifting Grounds of Defendants.

Perhaps the most unusual aspect of this case is the wholesale manner in which defendants have shifted their grounds or emphasis in trying to anticipate Korter's claim, both before the trial court and then, again, before this Honorable Court. Of the ten patents advanced by defendants in the Pre-trial Order only four, namely Miller, Crawford, Belding and Pruden, were discussed by defendants' witnesses. The other six, namely the two Lewando patents, Slaughter, Cusack, Clawson, and British de Sincay, on which defendants now seem to rely, at least in part, were completely neglected by them in the court below.

Defendants placed most of their emphasis at the trial on Crawford, even to the extent of running a courtroom demonstration on shingles which they said were made in accordance with Crawford.

However, in their appeal brief, they seem to have relegated Crawford to a minor position (mentioned only on page 48 as part of a group of patents) in the anticipation scale, emphasis now being shifted to the Miller and Birch patents in combination. However, Birch was,

in effect, *withdrawn* from the case by the defendants in having excluded this patent from the Pre-trial Order.

This shift in ground has made it difficult for appellee to appraise the patents on which appellants now rely, in the absence of having had the opportunity of bringing out the inherent weakness of such patents by cross-examination.

II. THE PROBLEM SOLVED BY THE INVENTION OF THE PATENT IN SUIT.

Prior to the introduction of the Korter application that was filed September 26, 1947 (Serial No. 776,332) and its co-pending application Serial No. 137,566, filed January 9, 1950, which resulted in the patent in suit, there was no commercially successful aluminum roof which embodied all of the features of the Korter shingle. The prior art cited by the defendants will be considered separately, but at this time we wish to point out that none of the patents specifically mention the use of an *aluminum* shingle, to which Korter's invention is addressed (Tr. 85). Aluminum is not an ordinary metal such as zinc mentioned by de Sincay or copper suggested by Miller (Tr. 194), both of which can be soldered, but aluminum has been a long-sought-after metal for shingles on account of its light weight but never attained due to practical difficulties of manufacture and installing, prior to Korter (Tr. 254).

Korter's entire purpose was to provide a shingle, made of aluminum, which sets above new sheathing or the old shingles, to leave an air space, and get rid of the inevitable water of condensation over the entire length and width of the shingle within that space and still use a water-tight interlocking joint along the upper and lower horizontal edges.

The improvement patent in issue differs from Korter's earlier application, of which the patent is a continuation, in that a drain slot of large size has been provided in a protected position at one end of the channel and always remains open, without clogging, even with dust or sand in the air.

III. THE KORTER PATENT CLAIM RECITES SIX MAIN FEATURES IN COMBINATION, ALL COOPERATING TO PRODUCE A UNITARY RESULT OF SURPRISING CHARACTER.

The six important features are set forth immediately below and the surprising result is that none of the moisture of condensation which slowly runs as trickles or sweat beads from the top horizontal edge of the shingle to the lower horizontal edge and over the entire length of the inner surface of the shingle drops to the wood sheathing below or to the plaster, in case there is no sheathing.

Would it not be surprising to observe, on a cold but sunshiny day, water being emitted from the lower side of the Korter shingle and running down the weather side of the lower adjacent shingle to reach the roof gutter? This water of condensation is formed solely due to difference in temperature between the external and internal surfaces of the shingle (Tr. 91) and *has nothing to do with rain water.*

The main elements of the claim are:

1. The corrugations or ridges 12 shown in Figs. 2, 4 and 6, which corrugations have been set forth in the claim as "forming ridges on the inner face of the shingle," meaning that the corrugations extend downwardly from the inner face of the shingle.

2. The spacing between the inner face of the shingle and the upper surface of the scroll of the next lower ad-

jacent shingle. This spacing can be seen in Figure 4 of the patent and is brought about by the fact that the corrugations or feet which are integral with the upper shingle contact the upper surface of the curved end 19, and thereby prevents this upper surface from contacting the inner surface of the upper shingle. The space between these ridges or feet constitute channels for the water of condensation to flow into the interlocking joint.

3. The "top and bottom turned-in edge portions comprising a half round portion." This refers to the portions indicated at 20 and 19, Figure 4 of the patent. The upper shingle is tangent to the upper edge of the half round portion 20 so as to give a full depth of gutter at this position.

4. The fastening tab—element 15 (Figures 1 and 2).

5. The gutter—as explained hereinbefore, is formed by the full half round portion 20 which constitutes a tangential extension of the lower part of the shingle and thus gives ample room for the water to run along the lower edge of the shingle.

6. The drain slot—element 21 of the Korter patent and, while it has been shown in the drawing as having an elliptical shape, the claim makes no requirements or limitations of shape or position of the slot except that "it shall be disposed in the gutter of the shingle."

The purpose of these six elements all cooperating together has been set forth in the object of the invention, column 1, par. 2, of the patent and is repeated in the last seven lines of the claim which read: "said corrugation ridges on the inner face of the shingle adapted to space said reversely turned top edge portion of the lower adjacent shingle from the inner face of said shingle so that moisture can travel along the inner face of the shingle and into said gutter."

This function of conducting the water condensate from the inner surface of the shingle through a tightly fitted interlocking joint which allows no water in the opposite direction could not be performed if the "corrugation" element of the claim is missing; nor could it be performed if the feature of having a spacing between the inner surface of the shingle and the upper surface of the scroll of the next lower adjacent shingle were missing, nor would it be efficiently performed if the top and bottom turned-in edge portions were not of a half-round character to give a full and complete gutter.

Nor would this function be performed if the gutter recited by the claim were missing, or if the recited drain slot or its equivalent were not present. In other words, every one of the six elements listed hereinbefore must necessarily be present in the combination, each performing its own sub-function in order that the main function of getting rid of the water condensation can be performed.

IV. DEFENDANTS INFRINGE THE KORTER PATENT.

A. General Discussion.

The accused shingle (PX 3) performs the same result in substantially the same manner as plaintiff's shingle (PX 2) because in both cases condensation water which forms over the entire length and width of the interior surface of each shingle would slowly flow down the shingle in driblets past the interlocking joint through spaces constituted as channels between downwardly extending ridges and into a semi-circular gutter, and, finally, out through a drain opening at the end or substantially at the end of the gutter.

In other words, both shingles are so constructed and arranged as to get rid of the water of condensation and

both shingles are intended to be elevated along one of its long lengths above the old roof or the new sheathing, which provides the wedge-like chambers and the air contained therein gives rise to the water of condensation when the temperature is suddenly decreased. The principle of the Korter invention and the manner of operation of the accused shingle are shown in a diagram "Principles of Korter's Invention" (PX 5). *Sanitary Refrigerator Company v. Winters, et al.*, 280 U. S. 30, 42 (appendix, p. 3a).

This principle was illustrated in connection with a section of roof made with plaintiff's shingles (PX 13) as compared with a section of roof made with defendant's shingles (PX 14). The water of condensation was simulated by the use of a spray gun which applied a film of water to the inside surface of each of the roof sections. Richardson explained the object of the demonstration on Tr. 108. His testimony stands unrebutted.

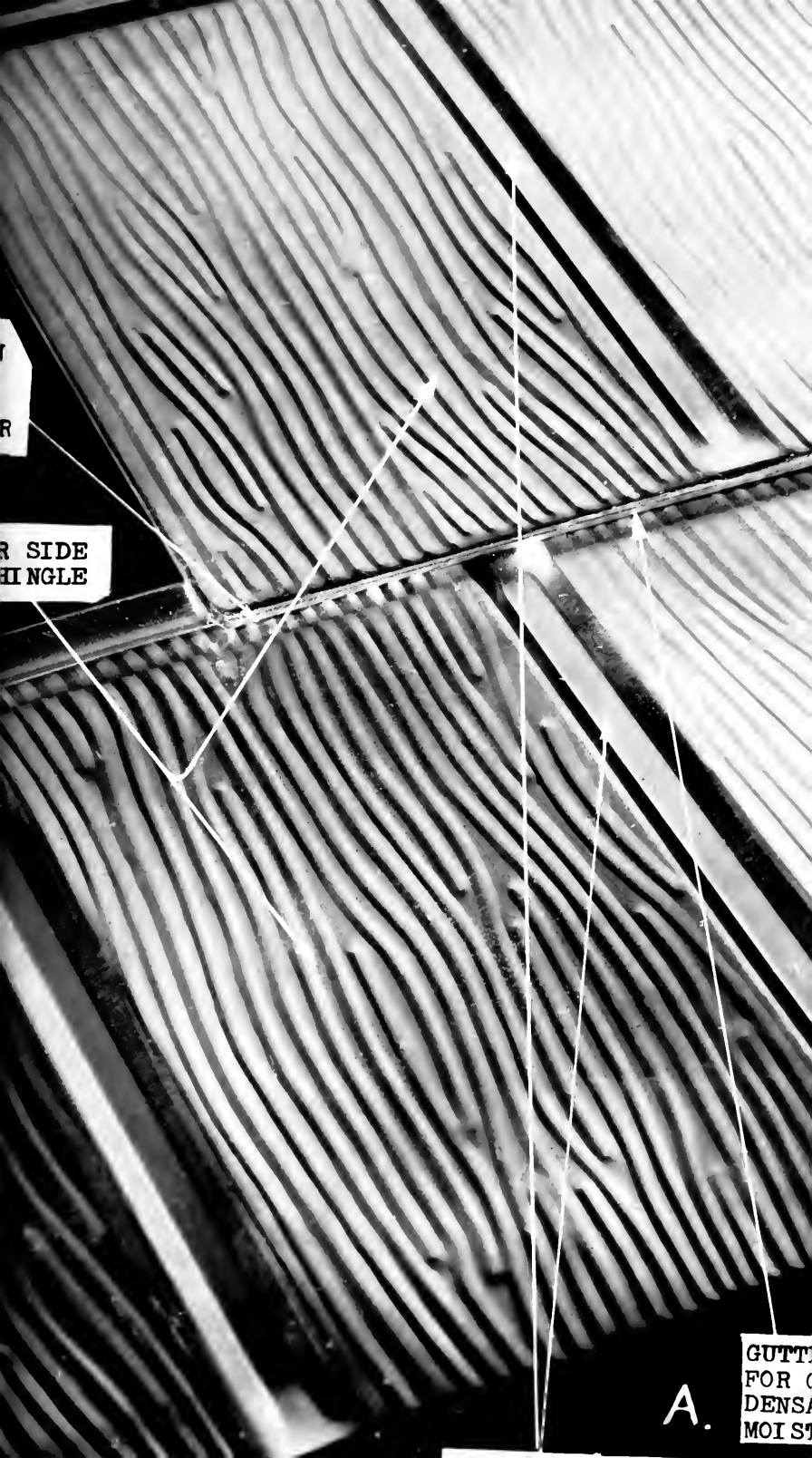
The similarity between the Korter shingle and the accused shingle is further brought out by photographs A to D, in which A and B show respectively the outside and the inside surfaces of the *Korter* shingle, and C and D show respectively the outside and the inside surfaces of the *accused* shingle. These photographs were taken from the official exhibits (PX 2 and PX 3) which were loaned to counsel by stipulation. The legends have since been added.

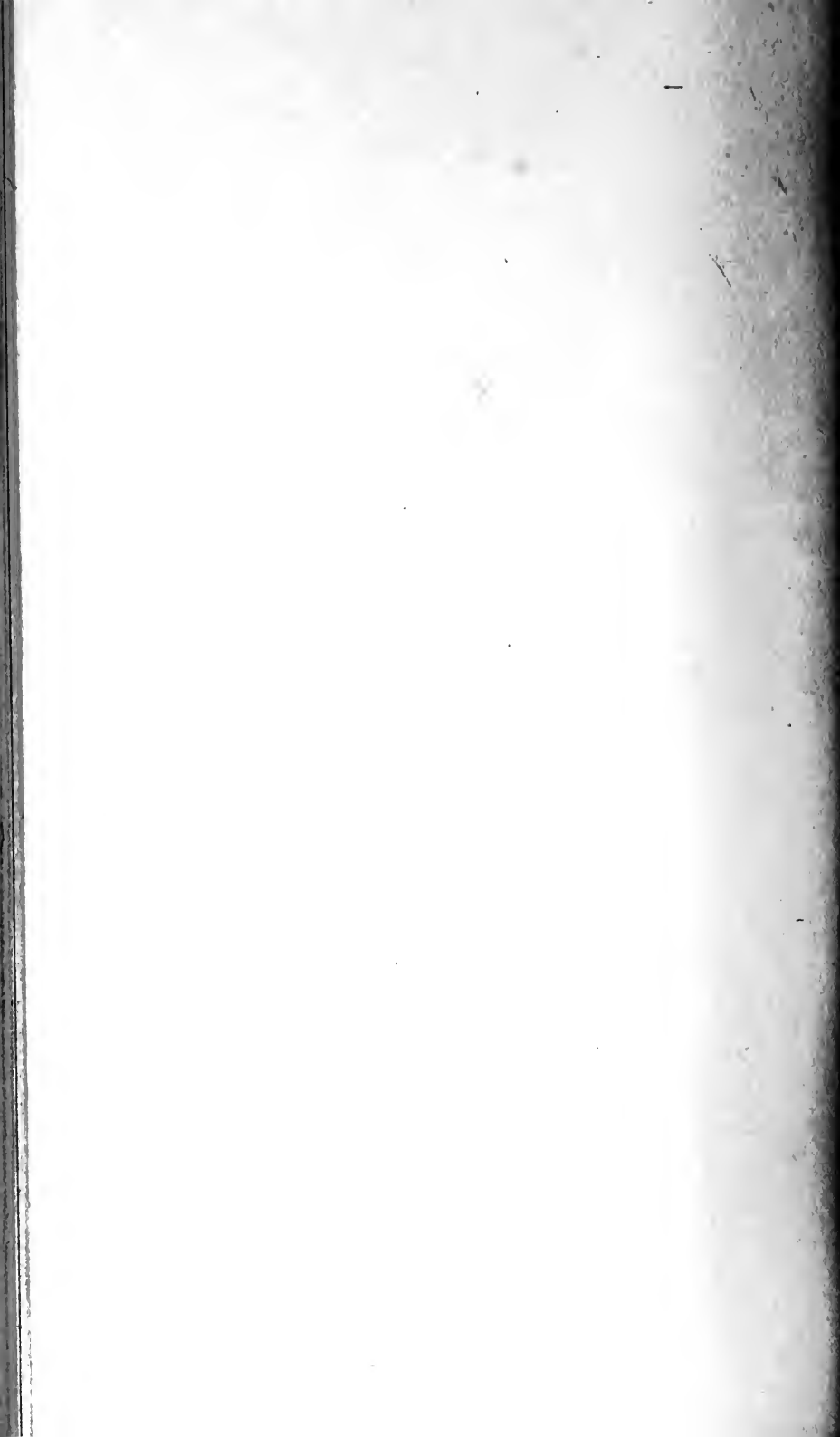
T
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GUTT
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DENSE
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A.





INVERTED
CORRUGATION
OR INVERTED
RIDGE

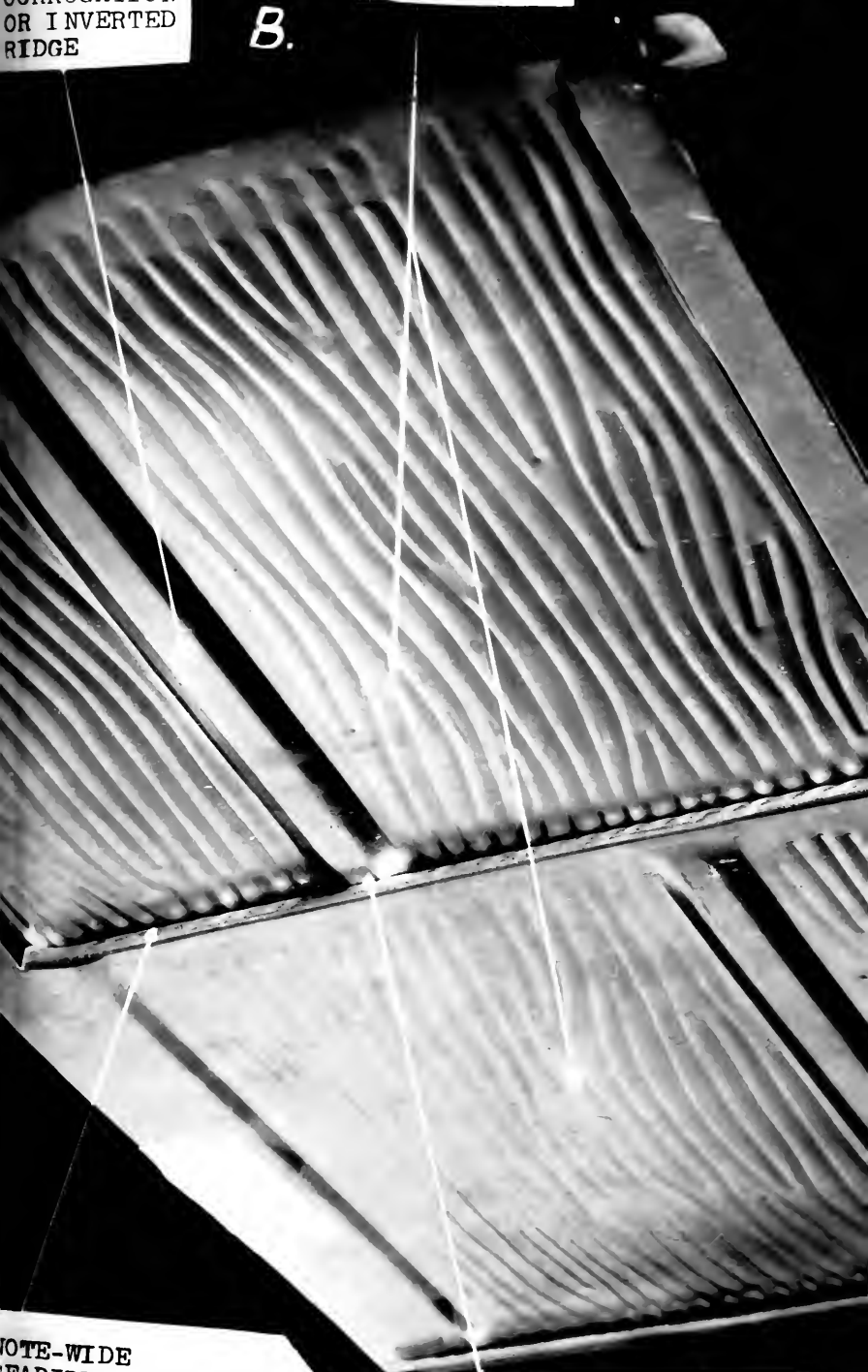
UNDERSIDE
OF SHINGLE

SHINGLE

B.

NOTE-WIDE
EASILY ACCESSIBLE
SPACE BROUGHT ABOUT
BY THE INVERTED
CORRUGATIONS FOR
MOISTURE TO RUN INTO

CONTACT BETWEEN
CORRUGATION AND
NEXT LOWER SHINGLE



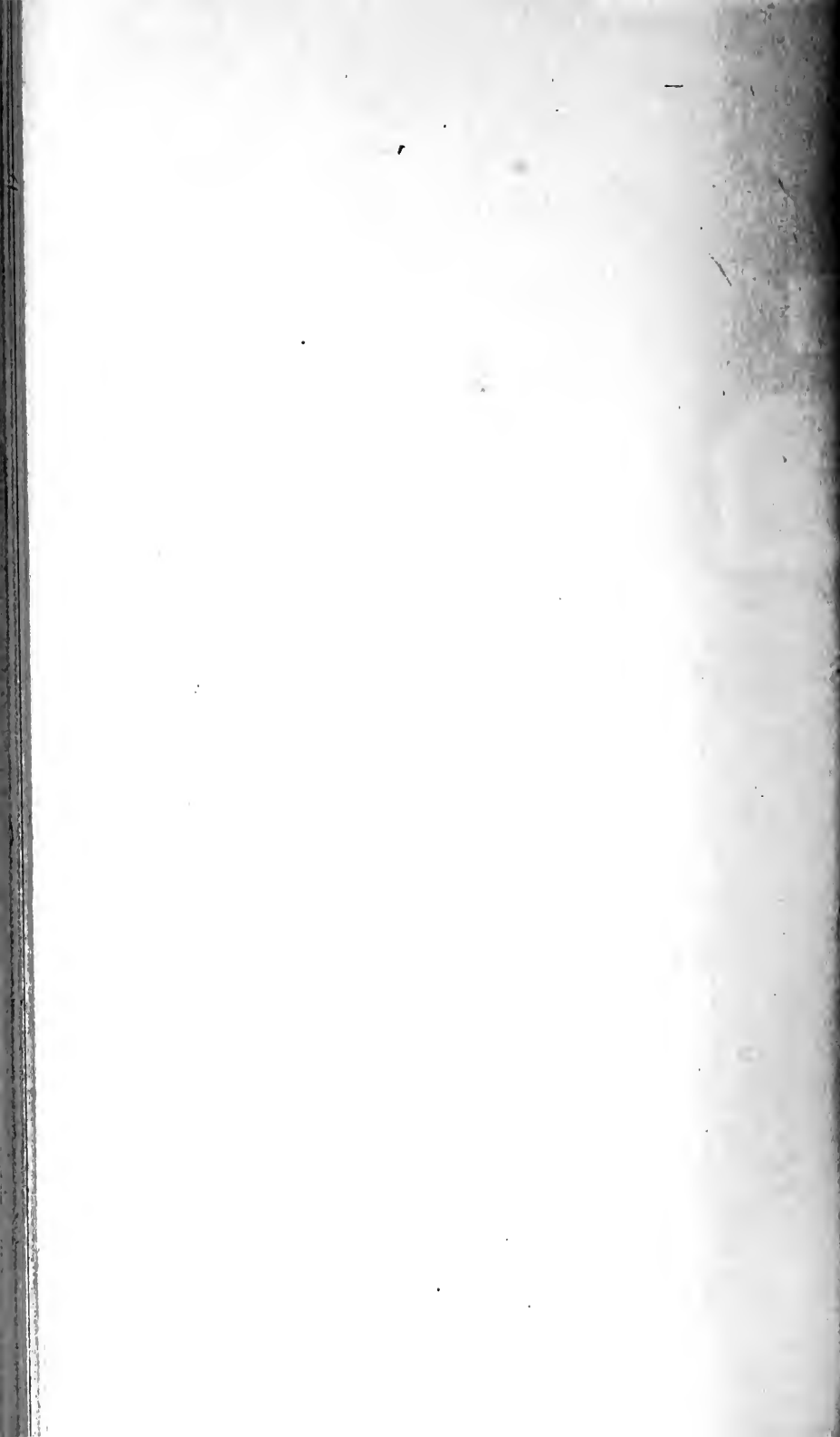
SIDE OF SHINGLE

**USED
SHINGLE**

**DRAIN SLOT
FORMED BY
LAPPED
CORNER -
WAYS OPEN**

**GUTTER ALONG WHICH
CONDENSATION MOISTURE
FLOWS ON INSIDE OF
SHINGLE AND OUT
THROUGH DRAIN SLOT**





INVERTED CORRUGATION
OR INVERTED RIDGE

D.

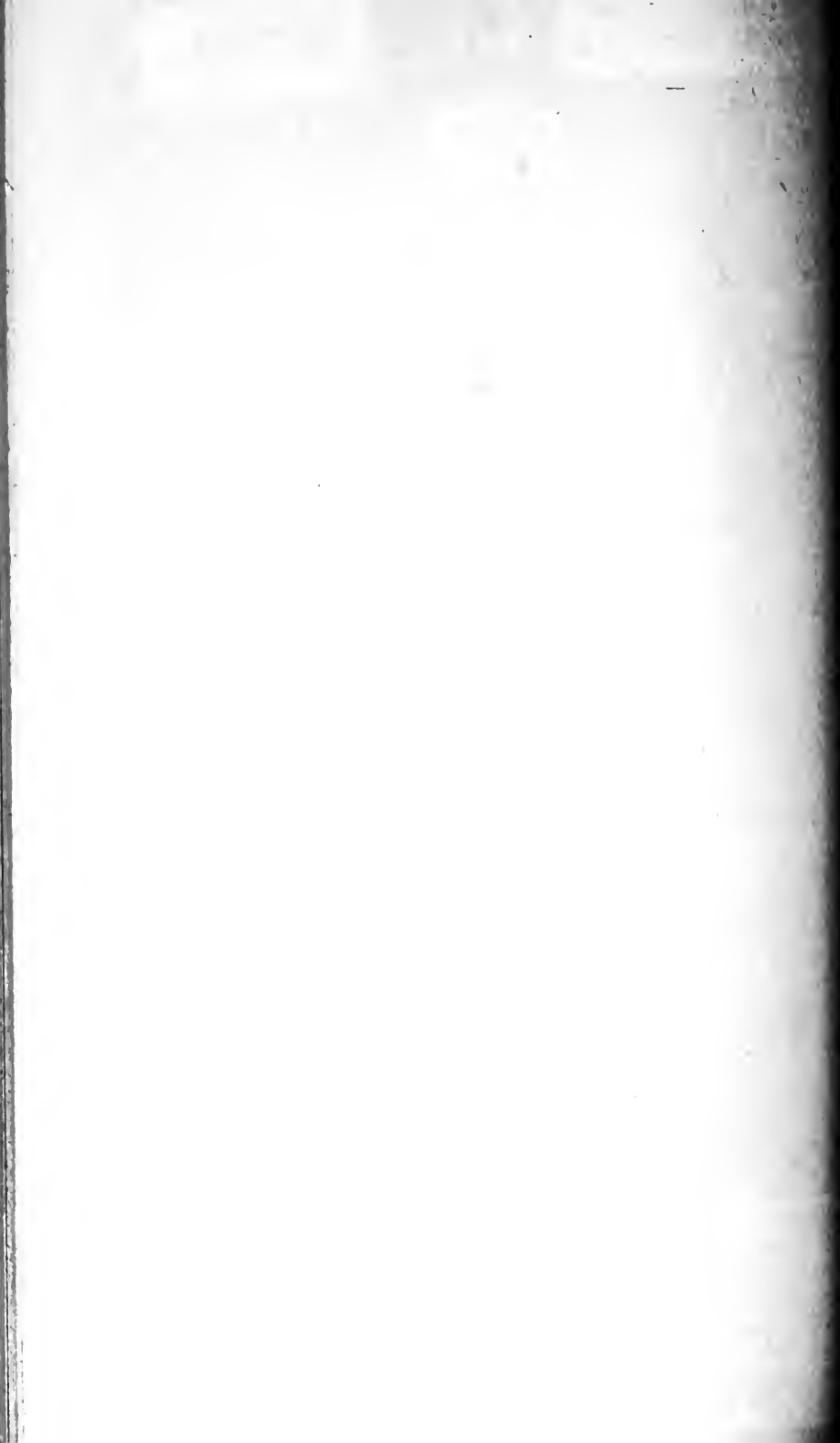
UNDERSIDE
OF SHINGLE

ACCUSED
SHINGLE

E-WIDE
DAILY ACCESSIBLE
HAVE BROUGHT ABOUT
THE INVERTED
CORRUGATIONS FOR
STRUCTURE TO RUN INTO
THROUGH THE TIGHT
JOINT TO THE GUTTER

CONTACT BETWEEN





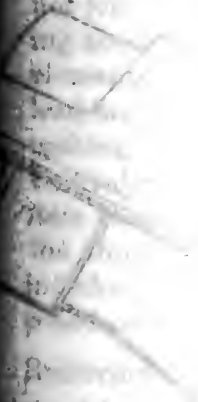
SKETCH E

The Bergman engine operates exactly the same as the
throughout the duration of water condensation
is concerned - the structure is also functionally the

BERGMAN



to be removed
to form the
in the
along the



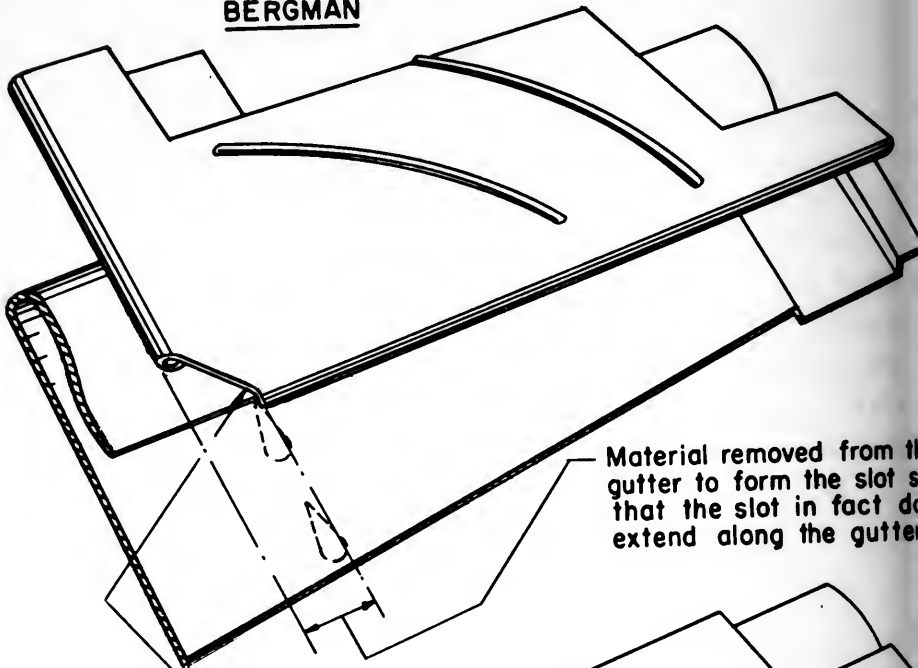
W. Bergman
1910

W. Bergman
1910

SKETCH E

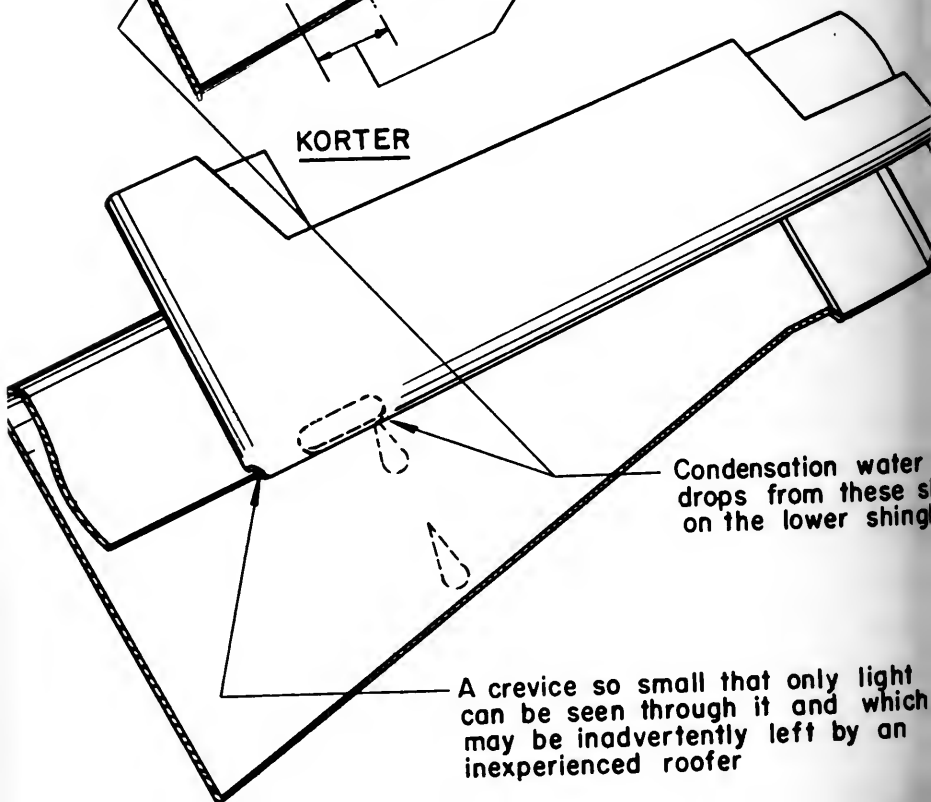
The Bergman shingle operates exactly the same as the Korter shingle insofar as the elimination of water of condensation is concerned — the structure is also functionally the same

BERGMAN



Material removed from the gutter to form the slot so that the slot in fact does extend along the gutter

KORTER



Condensation water drops from these spots on the lower shingle

A crevice so small that only light can be seen through it and which may be inadvertently left by an inexperienced roofer

We ask the Court particularly to note in D that Bergman has *deliberately inverted the vertical corrugations or ridges on his shingle to form a contact with the upper surface of the scroll of the lower adjacent shingle in order to provide a wide, readily accessible space so as to permit the moisture on the inside of the shingle to run into and through the "S" joint to the gutter formed by that joint.* The drain slot indicated on C on the front side of the accused shingle is formed *by clipping the corner, as indicated on the photograph, so that a portion of this slot extends along the gutter.* The removal of this material and the similarity between Bergman's slot and Korter's slot is vividly shown on the pen and ink sketch designated Sketch E.

Richardson testified (Tr. 266):

"A. There are two features * * * of course, I could not tell what Mr. Bergman or any one else was thinking about when they did this thing, but there are two elements of the structure of this shingle that would lead anyone to suspect it was made for the purpose of making a drain slot which would function in an equivalent manner to the Korter drain slot. The first item of suspicion is the cutting back of this corner of the shingles so much farther than necessary for the interlock and actually clipping the corners, the exposed corners, off the shingle. * * *"

Referring to Korter's combination claim, we find, as explained by Richardson (Tr. 108 to 110), that the Bergman shingle (PX 3) constitutes "an aluminum shingle of rectangular shape," the shingle does comprise "a substantially flat sheet of metal of uniform thickness" and that the shingle as a whole does lie "substantially in the same plane." There are corrugations extending "laterally of the shingle" (two in number) and these corrugations

form "ridges on the inner face of the shingle" because they extend downwardly from that face.

The lateral edges of the Bergman shingle (i.e. the left-hand and the right-hand edges) are reversely turned and they have "curved outer edge portions for interlocking the shingle with the laterally adjacent shingles." The top and bottom edge portions of his shingle are reversely turned because the top edge is folded forwardly and the bottom edge is folded underneath and these turned edge portions constitute half-round portions with the lower edge thereof "forming a gutter" and adapted to engage "with a reversely curved top edge portion of a lower adjacent shingle to form a close fit there between."

Bergman's shingle has a fastening tab at the upper right-hand corner "integral with the shingle" and extending from an upper corner of the shingle for securing the same to a roof structure. His shingle also has a drain slot at the left-hand end of the gutter and, as explained by Richardson, "Now, that drain slot can be seen through there. There is a cut-off end of the thing, and the whole thing has been enlarged to open up and make adequate drainage at all times," when the witness was referring to the large spaced edges formed between the vertical and horizontal lips at the lower left-hand corner of the shingle and also the diagonally clipped corner of the shingle which was deliberately provided in the Bergman shingle to cooperate with the wide-spaced edges of the said lips to provide an over-open drain slot.

Bergman's *wide slot* formed by the *clipped corner* at the lower left-hand end of the shingle is no accident. It was deliberately provided to emulate Korter's drain slot but placed in a slightly different position and of a different shape (Tr. 104, 105).

Defendant Bergman in his pre-trial deposition (PX

4, p. 14) admitted that the accused shingle does have a drain slot (as recited in the Korter combination claim) in or forming part of the gutter:

“A. We have our drain slots on the end.

XQ. You also have a drain slot there, do you not, in the gutter?

A. Well, I have heard you call it a bleeder, I will call it a bleeder or if you want to call it a drain slot, you can. It is the edge of the seam.”

Bergman could not show that any element or its function of Korter's combination claim was absent from the accused shingle.

Myers v. Beall Pipe & Tank Corporation, 90 F. Supp. 265:

“It is fairly obvious that a great deal of effort had been gone to in order to change the form so that it would look different than the Myers patent, but *imitation of essentials is the truest flattery and also points to the reality of infringement.* * * *”

United States Rubber Co. v. General Tire & Rubber Co., 28 F. (2) 104, 108, 109 (C. C. A. 6).

Also *Specialty Equipment & Machinery Corp. v. Zell Motor Car Co.*, 193 F. (2) 515-519 (C. C. A. 4) (appendix p. 1a).

An application of every element of Korter's combination claim to the accused shingle (PX 3) has also been indicated in diagrammatic form in plaintiff's exhibit 7 stipulated into the appeal record. The contents of this sketch stands unrefuted and was amply supported and explained by witness Richardson in Transcript 100-102.

It is significant that defendant Bergman admitted that his shingle does have “drain slots on the end,” which apparently Bergman contends “is also different from Korter's drain slot 21 because it is on the end” (Bergman's deposi-

tion, PX 4, p. 14). But the Court will note that Korter's claim is not limited to having the drain slot away from the corner, and would certainly include a drain slot at the end of the gutter in this terminology: "a drain slot disposed in the gutter of said shingle for draining water therefrom." The Trial Court and witness Richardson discussed this matter on page 263 of the transcript:

"The Court: The other side says that their shingle does not infringe because they don't have a drain slot. How do you reconcile that?

A. Well, they have a drain slot.

The Court: In other words, you say they have an equivalent?

A. That is right. There is nothing in the patent and there is nothing in the dictionary which says what shape or size or position a slot shall have. The patent says a drain slot. Now a slot is not always a drain slot, but a slot which necessarily drains and is disposed in the gutter and which drains the gutter is a drain slot in the Korter claim."

Bergman admitted in the Record (Tr. 234) that his shingle does have *downwardly* extending ridges, the same as Korter's element 12, and when pressed for the reason why he did not extend them upwardly as in the Miller patent but downwardly as in Korter, he said:

"A. Because it looked better." (Tr. 234.)

The real reason, as found originally by Korter, was to space the inner surface of the shingle from the upper curved portion of the lower adjacent shingle.

(1) Korter is entitled to a reasonable range of equivalents in regard to the position, shape and size of the drain slot as an element of the entire claimed combination.

The defendants cannot escape the charge of infringement by calling the drain slot in the Bergman shingle an

“open gutter end” as stated at pages 25, 30 and 32 of their brief. They argue that their drain slot is nothing more than a “bleeder” opening which is quite often left between metal shingles due to the inability of a workman to obtain a light-proof joint between adjacent shingles at the corner position.

However, the record below shows that when these small crevices or bleeder openings are left accidentally or intentionally between the shingles, they inevitably fill up with sand or dust in the air so that, regardless of whether there was initially a small drainage through the bleeder opening, it was only a question of time as to when the opening would be completely closed (Korter, Tr. 102, and Langville, Tr. 188). While these bleeder openings, when they are actually passing water, could in a general sense be considered drain slots, when they were closed they would no longer act as a drain slot (Tr. 123).

It was to this problem that Kortner addressed his second application corresponding to the patent in issue, and he provided a “drain slot” in the same type of shingle that was shown in his earlier application Serial No. 776,332 that was superseded by the later application and which drain slot would never be clogged, or, in other words, **would always perform the function of a drain slot.** This statement is completely consistent with the Kortner patent specification, page 1, column 1, lines 17 to 19 (referred to by defendants): “Figure 3 is a fragmentary perspective view of one corner of the shingle showing the drain slot which forms the basis of this invention.” Kortner, in his second application changed the wording from “drain opening” in the first application to a “drain slot” which was so large that it could never become clogged. This is strictly in accordance with the definition of the word “slot” as

given in the American College Dictionary (1953) published by Harper, New York, which states:

“Slot: A narrow elongated depression or aperture, especially one to receive or admit something.”

Thus the term “slot” is intimately tied up with the idea of having an object pass through it, in this particular case the moisture of condensation which has collected in the gutter.

Richardson on cross examination said (Tr. 123):

“A. A slot—I don’t like to compete with Webster but a slot is an opening of some kind. A drain slot is a slot that drains. Now, the same slot could or could not be a drain slot, depending on how it functions.”

Bergman went through the same reasoning in providing his drain slot which was so large that it did in fact always constitute a “drain slot” under the above definition and it always serves to pass the water of condensation which flowed into it from his gutter.

However, regardless of whether Korter’s drain slot is merely a glorified bleeder opening, and regardless of whether Bergman had the right to enlarge the bleeder opening to form a drain slot, the fact remains that Bergman would still infringe Korter’s combination claim because he chose not only to employ a drain slot, but also the other five elements of Korter’s claim, including the inverted ridges or corrugations, all of which cooperate together to provide a result never attained before, according to all of the witnesses below, except in the case of the Belding patent which attained the result in an entirely different way and which has not been advanced by defendants on this appeal.

The range of equivalents to be accorded Korter’s claim, particularly in regard to the recited drain slot, was

explored by defendants' counsel in the court below on cross examination of expert Richardson (Tr. 300, 301):

"A. For goodness sake, Mr. Kolisch, I don't want to get all hectic about this, but I would just like to point out that the only reference as far as structure goes in the claim is 'a drain slot disposed in the gutter of said shingle for draining water therefrom.' And he has the entire breadth of that in his claim, anyway. There is nothing in the claim that says anything about the shape of the slot. It just is disposed in the gutter for the purpose of draining the gutter. And it is allowed and it is assumed to be valid, and there is nothing in the prior art that says that that combination with any form of slot in the gutter is in the prior art."

Nowhere in the prior art were defendants able to show any opening at the end of a gutter of a metal shingle which would take care of the moisture condensate, under any and all conditions, and convey that condensate through an ever-open drain slot, as distinguished from a mere crevice or crack that might accidentally or incidentally be left at the corners of a shingle.

An accidental showing can never anticipate and this is especially applicable where the infringer takes the whole gist of the invention. *Frick Co. v. Lindsay*, 27 F. (2d) 59, 62 (C. C. A. 4) 1928; see also *Skelton v. Baldwin Tool Works*, 58 F. (2d) 221, 227 (C. C. A. 4) 1932. *Walker on Patents*, Deller's Ed., Vol. III, Par. 474, page 1718.

The form of Korter's drain slot 21, i.e. whether it is oval, elliptical, square, or even a slot with parallel sides as in Bergman, is *not* the indispensable thing. The feature that is indispensable is the fact that the drain slot must be disposed in the gutter of the shingle "for draining water therefrom," as is set forth in Korter's claim. That particular function of draining water from the gutter has cer-

tainly been shown and demonstrated in regard to Bergman's slot which is effectively at the end of the gutter and, as shown in the demonstration (Tr. 108), does perform the function of allowing the condensation of moisture to flow under all conditions from the gutter to the exterior surface of the adjacent shingle below.

- (2) **The drain slot in the accused shingle cooperates with the other elements of that shingle in the same manner as the drain slot cooperates with the other elements of Korter's combination claim.**

It is sheer nonsense for appellants to concentrate their argument on the drain slot as if it were the only element of the combination. They certainly know better. *General Motors Corporation v. Kesling*, 164 F. (2) 824, 833 (C. C. A. 8) (appendix p. 3a).

Bergman's drain slot could not have performed as it did in the demonstration in the court below (Tr. 53) if there was no gutter and the latter would have been of no use if it were not for the spacing between the inner surface of the shingle and the upper surface of the joint, and this spacing would not have been made possible if it were not for the inverted corrugations so that all of these elements performed exactly in the same manner and for the same purpose as their counterparts in the Korter shingle.

B. All of the Important Elements and Functions of the Korter Patent Claims are Found in the Bergman Shingle.

(1) Transcript record proving infringement.

The identity of the *structure* as between Korter and Bergman shingles was shown by Richardson on Tr. 102 to 105.

The identity of the *function* of the Korter and Bergman shingles was demonstrated in Court by Richardson, using a garden spray to simulate the moisture of condensation (Tr. 106 to 108).

As a result of comparison of the two shingles and the Court demonstration, Richardson found every element of Korter's claimed combination in the Bergman shingle (Tr. 108 to 110).

(2) Bergman could show no material difference in the court below, or in his pre-trial deposition between his shingle and the Korter claim.

On pages 13, 14, 15 of his deposition (PX 4) Bergman said the only difference between his shingle and Korter's shingle is:

(a) "A drain slot which I do not have"

(b) "Korter has a curvature in his which I do not have"

(c) "Then we have this here lock" (referring to a U-shaped lock at the upper left-hand corner of his shingle which incidentally has nothing whatsoever to do with the structure or function of Korter's claimed combination)

(d) "Our marks are different" (meaning the design of the group of shallow corrugations)

(e) "The difference in weight or gauge of aluminum sheets."

None of these differences go to the specific elements which make up Korter's combination claim, except perhaps reference to the "drain slot." But in open Court, Bergman admitted on cross examination that his shingle did have a "drain slot" (Tr. 237)—it is obvious that it does. (See photograph C, following p. 8 of this brief.)

C. Defendant's Case, to Avoid Infringement, Appears to Be Built Up on an Alleged File Wrapper Estoppel—at Best a Flimsy Excuse.

- (1) No limitation on the breadth of the patent claim is caused by
 (a) The suspension of the prosecution of Korter's earlier application, Serial No. 776,332 (PX 28).

On page 25 of their brief, appellants have seized upon the statement "Figure 3 is a fragmentary perspective view of one corner of the shingle showing the drain slot which forms the basis of this invention" in the patent, as allegedly showing that the subject matter of the earlier case, Serial No. 776,332, in disclosing the bleeder openings at the end of the gutter did not form a basis for the patent claim. In effect they argue, and we think erroneously that Korter was forced to abandon his earlier application on account of the prior art and by reason of the fact that that application showed only so called "bleeder openings" and not a "drain slot," and from that, they deduce the startling statement that "Korter's sole contribution was a 'drain slot'" (p. 25 of appellants' brief).

If this were true, we wish to ask appellants as to what happened to the six features of the Korter claim of which the drain slot was only one feature? It is obvious that appellants have lost sight of the fact that the Korter invention as set forth in the claim, does not reside solely in one feature, but instead, in the six main elements set forth earlier in this brief and discussed later in connection with the prior art, all cooperating together to produce a new and unobvious result. Would they have the temerity to deny that the accused shingle does have a drain slot beginning at the lower left-hand end of the shingle and running along the gutter as is brought out by the photograph C, following p. 8 of this brief? Consequently refer-

ence to the file wrapper of either the earlier or later filed application for the purpose of determining the meaning of the recited "drain slot" will be of no help to appellants, and nobody in his right mind could deny that the Bergman shingle has a slot. Under these circumstances, *it is neither necessary nor proper to refer to the file wrapper for the meaning of the term which reads directly and without ambiguity on the accused shingle.*

The simple and matter of fact explanation of the reference in the patent as regards the basis of the invention being shown in Figure 3 is that anything of patentable subject matter found in the earlier application, Serial No. 776,332, is added to the improved drain slot disclosed in a later application (the patent in issue) so that the two disclosures which were co-pending, represent a composite disclosure and the patent claim allowed in the later application was sufficiently broad to read not only on the disclosure of the later application, but also on that of the earlier application (35 U. S. C. A. 120, appendix, p. 4a).

Korter's reference to the earlier application, in accordance with the requirements of the Code, was made in Col. 1, first paragraph of the patent.

The statement made by appellees on page 38 of their brief that "The abandonment of its first application (PX 28) * * * were expressed disclaimer of any drainage means such as open corners at the ends of the gutter like those of the accused shingle" is completely in error and directly opposed to the statement in Code Section 120 that a second application which is filed for the same invention or contains substantially the same invention of an earlier application shall be entitled to claim any subject matter common to both applications and is entitled to the benefit of the date of the first application provided the second application was "filed before the patenting or abandonment

of or termination of proceedings on the first application." In the second place, appellants are apparently confused as to what is an "expressed disclaimer" in making the statement in their brief because obviously a disclaimer to be express must be signed by the inventor (35 USCA—Sec. 253) and *we defy appellants to find an express disclaimer in either one of the two Korter applications:*

It is true that Korter's first application (DX 28) is what is technically called "abandoned," by reason of the fact that the prosecution was suspended.

Appellants would like your Honors to believe—and we think erroneously—that in suspending the prosecution of the earlier application in favor of the second application, that Korter had actually dedicated the contents of his earlier application to the public. Nothing could be further from the truth than this. Korter's earlier application was only *technically* abandoned in the sense that the prosecution was merely suspended in order that all of his effort could be placed upon his co-pending second application which eventually resulted in the patent.

All of the elements of the patent claim can be found in the earlier application, including the "drain slot" when the bleeder openings ("lateral drainage") were actually relieving the gutter of the moisture condensate. It was only when these openings were temporarily clogged by sand or dust that the original case did not have a "drain slot."

Walker on Patents, Deller's Edition, Vol. I, at pages 358 and 359, states:

"Abandonment of an application may be actual, or it may be constructive * * * but abandonment of the application does not of itself constitute abandonment of the invention. * * * If, when withdrawing it, he intends to and does file a new application for the

same invention, the two applications are held to constitute one continuous application within the meaning of the law." *Godfrey v. Eames*, 1 Wall. (68 U. S.) 317, 17 L. Ed. 684 (1864); *Clark Blade & Razor Co. v. Gillette Safety Razor Co.*, 194 Fed. 421, C. C. A. 3 (1912).

See also *Smith v. Goodyear Dental Vulcanite Co.*, 93 U. S. 486, 500.

The opposition has tried to give Your Honor the wrong impression that the earlier application had been abandoned in view of the Crawford patent 553,514 which it has offered as one of the defense patents in this suit. It is true that Crawford had been cited by the Patent Office against the earlier application, but it is equally true that Korter was strenuously fighting the Examiner's contention, in that he believed that the Patent Office tribunals had made a mistake in holding that the earlier claims were met by Crawford when he suspended the prosecution in favor of the continuing application.

Goodwin Film & Camera Co. v. Eastman Kodak Co. (District Court, W. D. N. Y.) 207 Fed. 351, 357 (appendix p. 5a).

Had the prosecution of the earlier application been terminated by the applicant and there was *no* copending application to carry the contested subject matter along, it might properly be said that the earlier application had been abandoned in view of the cited patent.

Appellants' statement (page 33 of their brief) that "Korter cannot resort to the doctrine of equivalents to recapture that which was required to be given up in order to obtain a patent" has no basis in patent law. File wrapper estoppel as to claimed subject matter does not attach until after *the patent has been granted*—in other words, no inference as to disclaimer or dedication to the public

can be made as to any subject matter that may have been contained in either the first or the second application, or both, until the final claim or claims of the grant had been worked out with the Examiner.

If the final claim as allowed, regardless of the number of copending applications which became necessary to obtain that allowance, and regardless of whether any of the applications were technically abandoned, reads squarely on the accused product, as in this case, there can be no estoppel in favor of the infringer anywhere along the application line. *Dean Rubber Mfg. Co. et al. v. Killian*, 106 F. (2) 316, 320 (C. C. A.—8) (appendix, p. 5a).

The earlier case disclosed five features in combination:

1. Corrugations or ridges as shown at 24.
2. The spacing between the inner face of the shingle and the upper surface of the scroll of the next lower adjacent shingle, as shown in Figure 4.
3. The fastening tab—element 22.
4. The gutter as shown at 11 in Figure 3.
5. The drain slot as described in the sixth object and again on page 4, line 18.

All five features have been carried along into the second case. No feature that is in the patent claim was ever dropped in the earlier case so that there can be no dedication to the public of any of the claimed subject-matter. The natural drainage at the corners of the shingle as described in the earlier application, comprises slots during the time that water is actually going through, i.e., when they are not clogged, because the term "slot" as used in the patent claim, refers to an opening of any size, even a "bleeder" (termed a "drain opening" in the earlier case) which remains open and actually drains water. However, if the opening becomes clogged by sand or dust, it cannot

be called a "drain slot," and it was for this contingency that Korter provided the large rectangular opening in his second application. And it was for this same reason that Bergman provided his rectangular opening which even Bergman has designated a drain slot.

In *Westinghouse Electric & Mfg. Co. v. Condit Electrical Mfg. Co.*, 194 Fed. 427, Judge Learned Hand adopted the law set forth in *Campbell Metal Window Corporation v. S. H. Pomeroy & Co.*, 300 Fed. 872, 874. (See appendix, p. 4a for excerpt.)

The Patent Office officially has gone on record as stating that none of the subject matter in the first application (PX 18, DX 28) was disclaimed because on the face of the file wrapper there is a note: "This application referred to in patent No. 2,631,552. Do not destroy (See order No. 3116, 400 O. G. 1) DO NOT DETACH," and by the statement made by the solicitor in the Patent Office on Paper No. 17 of the file wrapper which reads: "The above civil action was terminated on stipulation for Dismissal signed by counsel on March 13, 1953, with prejudice as to claims set out in the complaint but *without prejudice as to any claims the Patent Office may allow or has allowed in the application of the plaintiff here involved, or in any other application.*" (Signed E. J. Reynolds, Solicitor.)

(b) No limitations on the breadth of the patent claim is caused by the cancellation of claim 10 or any other claim in the patent file.

On page 38 of their brief, appellants allege that Korter has expanded his patent claim to include what was rejected by claim 10 in the second application. That is impossible for the simple reason that the patent claim as

allowed includes every element of claim 10. Nothing was lost by the cancellation of that claim.

Rejected Claim 10.

An aluminum shingle of rectangular shape

having flat seams along the lateral edges thereof

and having a backwardly turned half round gutter along its bottom end

said gutter having a reversely curved side

said gutter having a drain opening near the end thereof, the tip of said shingle having a shape similar to said bottom end and turned toward the weather side of the shingle

said shingles having grooves formed therein forming spacers between the underside of the shingle and the top side of the interlocked gutter and tip seams

The Patent Claim.

An aluminum shingle of rectangular shape

providing curved outer edge portions for interlocking the shingle with laterally adjacent shingles

the turned bottom portion forming a gutter

a drain slot disposed in the gutter of the shingle for draining water therefrom

the top and bottom edge portions of the shingle being reversely turned on opposite sides thereof

corrugations in said shingle spaced laterally of the shingle, said corrugations forming ridges on the inner face of the shingle * * * said corrugation ridges on the inner face of the shingle adapted to space said reversely turned top edge portion of the lower adjacent shingle from the inner face of said shingle

The above comparison of the patent claim which the Examiner allowed (and incidentally the same Examiner who had previously acted on claim 10) will show that the spacer ribs for facilitating drainage of condensation has been set forth in the patent claim in the same scope as in claim 10 except, perhaps, the function of these spacer ribs is indicated in a more precise manner. *Dean Rubber Mfg. Co., et al. v. Killian, supra.*

Korter did not at any time give up the subject matter of claim 10 that was rejected because at the time that it was cancelled (amendment dated October 7, 1952—Px 17) in the directions for cancellation of this claim, he said, "Cancel claim 10 *without prejudice or disclaimer of the subject matter* and substitute the following claim in lieu thereof," showing that the subject matter of claim 10 was carried over into the subject matter of claim 11. Claim 11 was rejected as being "indefinite and incomplete" (Office Action dated January 12, 1953) and then this claim was rewritten in the form of claim 12, which claim as slightly amended, constitutes the patent claim in issue.

Here, again, the claim as eventually allowed reads squarely on the accused shingle so that there can be no estoppel anywhere in the proceedings, and regardless of the cancellation of claim 10. *Campbell Metal Window Corporation v. S. H. Pomeroy & Co., supra. National Tube v. Mark, et al., 216 F. 507, 522 (C. C. A. 6).*

On page 22 of its brief, appellants allege that "The applicant acquiesced in this rejection by the Examiner * * * and no claim of comparable scope was ever submitted thereafter in the application." As a matter of fact, applicant did *not* acquiesce in the rejection because later the applicant re-inserted the same subject matter of claim 10 into the application as shown by the above catalog of elements, but in a more accurate and definite form, which the Examiner eventually allowed.

We realize that Your Honors will distinguish between "acquiesced in this rejection" as alleged by appellants and a condition in which an applicant had openly admitted that the subject matter was unpatentable. A mere acquiescence never precludes the reinstatement of claim 10 in its verbatim form or in an improved form from the accuracy and definiteness standpoints as long as the

reinsertion takes place prior to the actual grant of the patent. *Ex parte Collins*, 44 USPQ 82, 84 (appendix p. 6a).

The Board of Appeals decision was adopted by the District Court, S. D. New York, in the case of *General Electric Corporation v. Hygrade Sylvania Corporation et al.*, 67 USPQ 72, 75 (appendix p. 7a).

Also see book entitled *Patent Office Rules and Practice* by Leon H. Amdur (who is considered a well known authority on the intricacies of Patent Office Practice), Sec. 199c (appendix p. 7a).

Claim 10 under attack by appellants was *never* finally rejected but the subject matter was continuously being advanced before the Patent Office by the claim eventually allowed. *Baltzley et al. v. Spengler Loomis Mfg. Co. et al.*, 262 Fed. 423, 426 (C. C. A. 2) (appendix p. 5a); *Bullock Electric Mfg. Co. et al. v. Crocker-Wheeler Co.*, 141 Fed. 101, 110 (Circuit Court, D. New Jersey) (appendix p. 6a); *Dean Rubber Mfg. Co. et al. v. Killian*, 106 F. (2) 316, 318 (C. C. A. 8); *Ensign Carburetor Co. v. Zenith-Detroit Corporation*, 35 F. (2) 684, 686 (C. C. A. 2) (appendix p. 7a); *Anraku v. General Electric Co.*, 80 F. (2) 958, 960 (C. C. A. 9) (appendix p. 8a); *Lyon v. Bausch & Lomb Optical Co.*, 119 F. Supp. 42, 45 (District Court, W. D. New York); *Celanese Corporation of America v. Essley Shirt Co., Inc.*, 98 F. (2) 895, 896 (C. C. A. 2); *F. E. Myers & Bro. Company v. Goulds Pumps, Inc.*, 86 USPQ 12, 14 (District Court, W. D. New York).

(c) There are no intervening rights in favor of defendants.

There can be no intervening rights in favor of defendants by the cancellation of any of the claims either in the earlier or the later application because the sub-

stance of the rejected claims was carried through the prosecution of the earlier case filed September 1947 to the later filed case and then through the later filed case to the final form of the patent claim. In addition the record shows that the defendants did not make or sell the accused shingle until July 1952 (Bergman's pre-trial deposition—PX 4), and according to the record (Tr. 152), Bergman obtained the first information regarding the accused shingle from Korter himself as early as July 1950, when Korter had, at Bergman's request, shingled Bergman's house with precisely the same shingle as was shown and disclosed in the later application and was introduced into the record as PX 2.

Thus, in the present case, the Korter combination claim (patent in issue) reads directly on the accused shingle (PX 3) and the subject matter of this claim was being continuously prosecuted before the Patent Office, beginning with Korter's earlier application, Serial No. 76,332 and then simultaneously prosecuted during the proceeding of the Korter patent in issue, until the claim was formally allowed.

There can be neither dedication of the subject matter of that patent claim or any part thereof to the public—there can be no abandonment of the invention as covered by any part of the patent claim—and there can be no interfering rights established in favor of one who infringes the patent claim.

In *Campbell Metal Window Corp. v. S. H. Pomeroy & Co., Inc.*, 300 Fed. 872, 874 (District Court, S. D. N. Y.), Judge Learned Hand declared:

“I do not understand that this case meant to require me to go through all that was said in the endless communications between applicant and Examiners to gather piecemeal the intent of the grant as though I

were construing a correspondence. If so, what is the purpose of the final, formal instrument? * * * In any event, it is well settled by authorities binding upon me that in this circuit we do not look to exterior expression of intent, but treat a patent as we should will, a deed, or any other instrument intended to be a final memorial of the parties' intention." (Citing many authorities.)

Thus, Korter was the true inventor of the shingle—not Bergman—and Korter was, since September 1947, striving to patent the shingle, either through his earlier application or through his later application which eventually matured into a patent.

V. KORTER PATENT IS BELIEVED TO BE VALID.

A. Korter's Contribution of a Lifetime Shingle Made of a Non-rustable, Ordinarily Non-oxidizable Metal, Aluminum, to Supplant Hard-to-Manufacture Slate Shingle and Short-life Wood and Tile, Filled a Long-felt Want

As will be shown when discussing the patents advanced by defendants, Korter was the first to have given the roofing business an *aluminum* shingle, at least one of a practical character. No patent relied on by appellants discloses specifically aluminum, whereas Korter's claim is limited to *aluminum*.

The prior art used such metals as copper (Miller patent) which readily lends itself to solder for covering holes or leaks, or a shingle which required a great deal of work after it was laid on the roof, such as hammering the folded edges down so as to render it perfectly waterproof (such as Crawford), or making sure the joints are tight by filling them with cement (Lewando patents).

Korter's shingle is in finished form when laid on the roof—it is light in weight, water-tight without the use of

solder, welding or cemented joints, and is easy to install. Since aluminum does not rust, the roof lasts a life-time.

The fact that he did fill a long-sought want in the roofing field is attested to not only by the phenomenal success achieved by Korter in selling his shingles in quantity since 1948, his sales improving year by year (Tr. 103, 155), but by the large number of testimonials that he received and filed in the earlier patent application (PX 18, DX 29). Korter was the manufacturer chosen to apply aluminum shingles to the Blanding Dream House in Portland (1948) (Tr. 149) which was intended to represent the newest and most economical form of shingle.

Perhaps the most convincing testimony as to the newness and practicability of the Korter shingles was the proof that defendant Bergman had hired Korter to shingle his house with aluminum shingles in the summer of 1950 (Tr. 152). It was only two years later when Bergman formed his company, Perma-Lox Aluminum Shingle Corporation, to make aluminum shingles, after having observed the great success achieved by Korter, particularly in and around Portland, that he went into the shingle business and competed with Korter on a large scale.

Pacific Contact Laboratories, Inc. et al. v. Solex Laboratories, Inc., 209 F. (2) 529, 532 (C. C. A. 9). *Claude Neon Electrical Products, Inc. v. Brilliant Tube Sign Co. et al.* (C. C. A. 9), 48 F. (2) 176. *Lyon v. Bausch Lomb Optical Co.*, 224 F. (2) 530, 535 (C. C. A. 2). *Kendall v. Trico Products Corporation*, 31 F. (2) 522, 524 (C. C. A. 3).

In the *Pacific Contact Laboratories* case, *supra*, Circuit Judge Stephens (C. C. A. 9) said:

“It must also be noted that the Patent Office, only after making a close examination of Tuohy’s claim of

invention, granted him a patent on the corneal lens. And there is evidence that the corneal lens *met with wide acceptance and success only after Tuohy put it on the market.* We, therefore, conclude that the district court's finding that Tuohy invented the corneal type lens is not clearly erroneous."

B. Korter's Claim Contains Ten Features All Cooperating Together to produce a New and Unobvious Result of Getting Rid of Moisture Condensate From the Inner Side of a Metal Shingle.

The elements of Korter's claim are:

(1) An Aluminum Shingle of Rectangular Shape, said Shingle comprising a Substantially Flat Sheet of Metal of Uniform Thickness and the Body of Which Lies Substantially in the Same Plane;

(2) Corrugations in said Shingle Spaced Laterally of the Shingle, said Corrugations forming Ridges on the Inner face of the Shingle;

(3) The Lateral Edges of the Shingle being Reversely Turned on Opposite Faces of said Shingle providing Curved Outer Edge Portions for Interlocking the Shingle with Laterally Adjacent Shingles;

(4) The Top and Bottom Edge Portions of the Shingle being Reversely Turned on Opposite Faces thereof;

(5) Each of said Top and Bottom Turned Edge Portions comprising a Half-Round portion, one Side of which is Tangent to the Plane of the Shingle and the Other Side of which Terminates in a Reversely Curved Portion;

(6) The Turned Bottom Portion forming a Gutter;

(7) And the Reversely Curved Portion thereof being engageable with a Reversely Curved top Edge

Portion of a Lower Adjacent Shingle to form a Close Fit Therebetween;

(8) A Fastening Tab Integral with the Shingle and Extending from an Upper Corner of said Shingle for Securing the same to a Roof Structure;

(9) And a Drain Slot Disposed in the Gutter of said Shingle for Draining Water therefrom;

(10) Said Corrugation Ridges on the Inner Face of the Shingle adapted to Space said Reversely Turned Top Edge Portion of the Lower Adjacent Shingle from the Inner Face of said Shingle so that Moisture can Travel along the Inner face of the Shingle and into said Gutter.

We wish to call particular attention to features (2), (5), (6), (8), (9) and (10) above.

The manner in which each of the ten elements read upon the Korter patent is shown in detail in PX 6 stipulated into the record on appeal.

The patent claim carries the presumption of validity under the law (35 USCA Sec. 282) and before the claim can be rejected it must be shown that the combination of the ten elements, all cooperating together in the manner expressed in the claim and for the purpose stated, is found in the prior art. The Patent Office specifically allowed the combination claim over all of the patents on which appellants rely, except the two Lewando patents that were not mentioned during the prosecution of either the earlier filed or the later filed Korter application.

C. Korter's Claim is Believed to be Valid over the Miller Patent Considered Either Separately or in Connection with Birch et al.

- (1) Miller is indefinite, inaccurate and therefore violates the rule that any patent, alleged to anticipate, must be clear, precise and definite.

In their brief on appeal appellants appear to dwell more heavily upon Miller notwithstanding the fact that this patent was considered by the Examiner when Korter's claim was allowed. But Miller is no better as a reference than Crawford, which they emphasized in their demonstration in the Court below, because

(1) Figures 1 and 2 of the Miller patent are not consistent with one another as we will show, and

(2) Miller lacks not only mention of ridding the inner side of the shingle, throughout its length and breadth of moisture condensate but also lacks structure by which such result could be obtained as will be shown under the next heading.

But as to the indefiniteness of Miller and therefore its incapacity to serve as a reference, we invite attention to Figure 1 which shows a plan view of a blank from which the shingle is formed. Note particularly that there is a right angle jog or extension at the lower right and left hand corners of the shingle which is located at the end of a leader line 3.

Figure 2 is a top plan view of the shingle, bent to shape at the edges and made from the blank of Figure 1. Appellants called particular attention in their brief to what they say is a slot at the lower and right hand corner of the finished shingle. But we wish pertinently to inquire of appellants, and incidentally of Miller, as to what happened to the jog shown in Fig. 1 but absent in Fig. 2?

ay 27, 1941.

DIAGRAM F

T. D. MILLER

2,243,256

METAL ROOF COVERING

Filed April 25, 1938

2 Sheets-Sheet 1

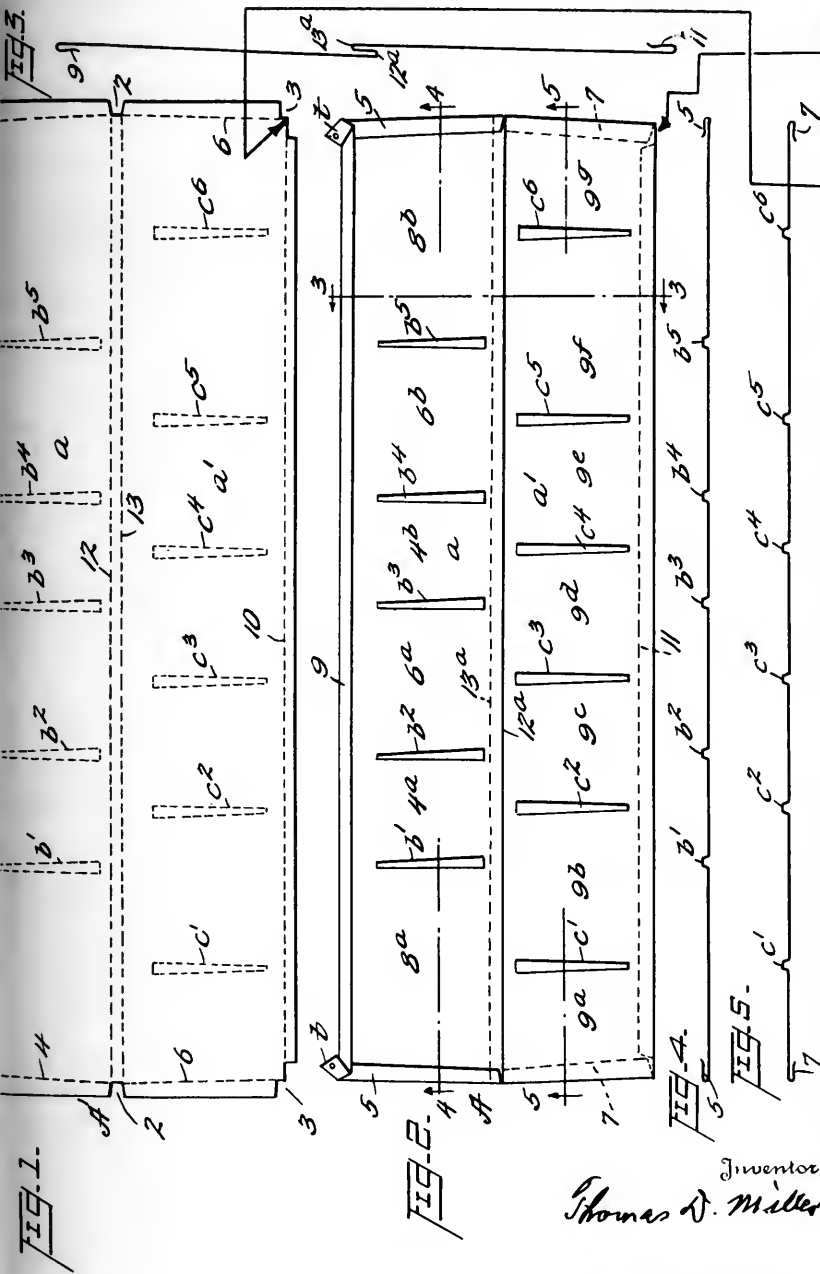


FIGURE 2 IS INCONSISTENT WITH FIGURE 1 BECAUSE FIGURE 1 SHOWS A JOG AT 3 WHICH WOULD SERVE TO CLOSE THE CORNER SEAM AS SHOWN ON PHOTOGRAPH . FIGURE 2 FAILS TO EVEN ACCOUNT FOR THE PRESENCE OF THE JOG BECAUSE THE JOG PATENT IS THEREFORE INCOMPLETE

Inventor
Thomas D. Miller

Robert M. Utstein
 Attorney

SKETCH MILLER S. S. 27, 28

When the above Corner Station

there was only one Station

Figure 2 and that was Station

Ranges 7 and 8

Vertical

at the Station

laps the Station

ated with

Station

Station

Station

Station

Station

Station

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Vertical

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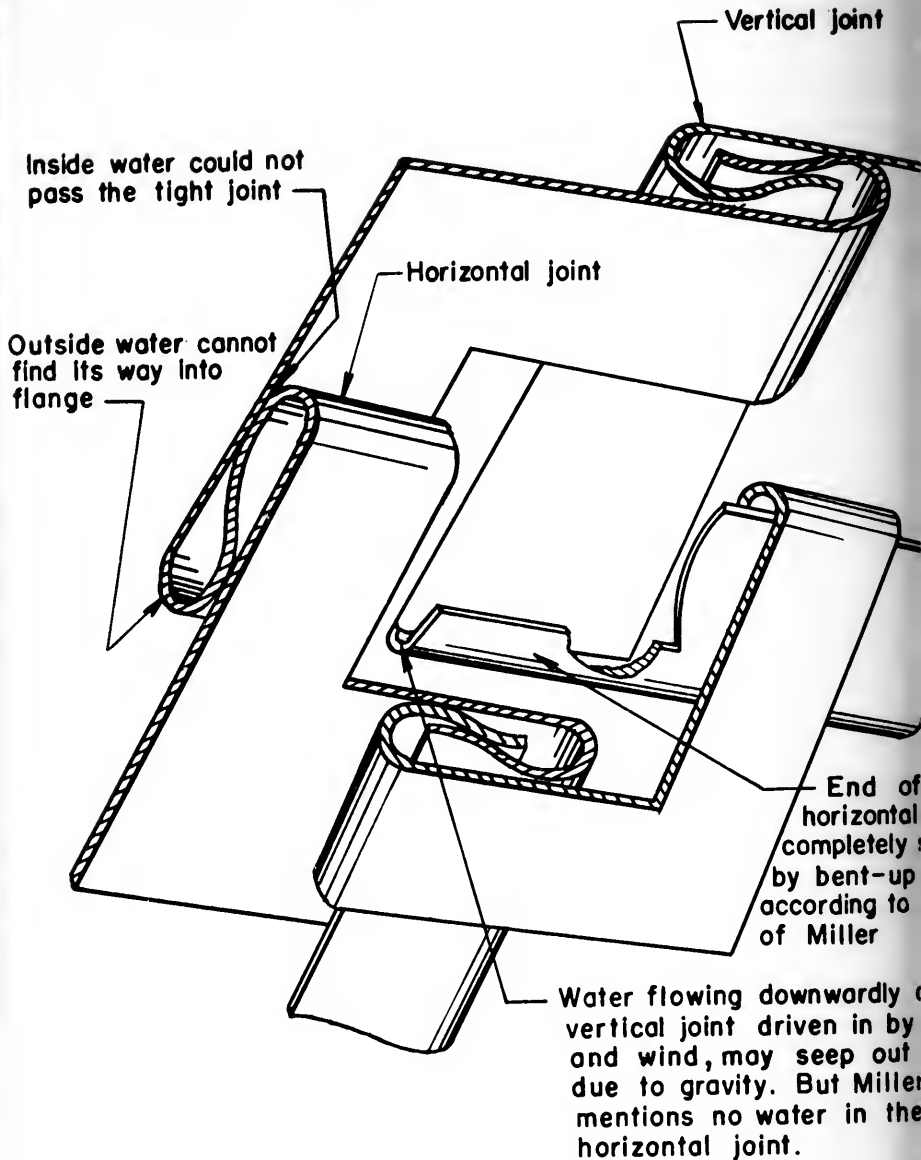
Station

Station

Station

MILLER 2,243,256 SKETCH G

Corner Portion



When the shingle in Figure 2 is bent to shape, actually there was only one place where that jog could go in Figure 2 and that is to seal the diagonal spaces between the flanges 7 and 11 at each lower corner of this figure. In other words, the jog would completely close any opening at the corner between the flanges 7 and 11 except perhaps the small crevice or crack that could not be avoided when bent metal members are fitted together. The inconsistency between the showings of Figures 1 and 2 of Miller is brought out by the legends shown on a copy of the patent itself labelled as Sketch F. It is still further shown in perspective by a sketch of the corner portion of the Miller patent in which the position of the jog at 3 in connection with the finished form of the shingle in Figure 2 has been depicted as a perspective view. This showing is labelled Sketch G.

Appellants derive practically their entire case in contending that Miller is pertinent, from the showing of the space between the flanges 7 and 11 in Figure 2 of Miller, and in as much as the very point on which they rely is not at all clear from the patent on the matter of the presence or absence of jog 3 and is certainly inconsistent with the showing of the similar part in Figure 1, we submit that Miller is not a proper reference from which one merely skilled in the art could have derived Korter's claimed combination. *Schmeitz Wire Glass Co. v. Western Glass Co.*, 178 F. 977, 988 (Circuit Court N. D. Ill. E. D.).

- (2) Miller does not disclose all of the ten features of the Korter combination claim—it lacks at least five important features.

These five features are:

(1) “Said corrugations forming ridges on the inner-face of the shingle”—Miller’s rectangular grooves B 6 etc. are not raised ridges on the inner-face of the shingle—ridges are only on upper side.

(2) “The lateral edges of the shingle being reversely turned on opposite faces of said Shingle”—in Miller as shown in Figure 2 the flange 5 at the left hand edge of the shingle is bent upwardly, as is also the flange 5 at the right hand edge of the shingle so that they are not reversely turned on opposite faces of the shingle. In the Korter patent as shown in Figure 1 the left hand edge of the shingle is turned downwardly and the right hand edge of the shingle is turned upwardly—hence the phrase “the lateral edges of the shingle being reversely turned on opposite faces” which clearly Miller does not have.

(3) The term “bottom portion forming a gutter”—Miller purposely describes the bottom portion 11 as an “underturned flange” (Column 2, line 25)—not as a gutter—because *it cannot be a gutter unless water flows through it*. In Miller, it is impossible for water to reach the flange because there is no spacing between the upper surfaces of the scroll forming the “S” lock and the inner surface of the shingle by which water could flow along the inner surface into the flange. This has been brought out more clearly by the sketch designated Diagram H which compares the gutter effect of Korter with the mere flange effect of the Miller patent in that in Korter, as indicated by the legends, the downwardly extending corrugations provide a space to accommodate the moisture conden-

KORTER 2,631,552

SKETCH H

Corrugation is down to provide clearance underneath for condensation water

Note: Corrugation extends beyond the joint

ter

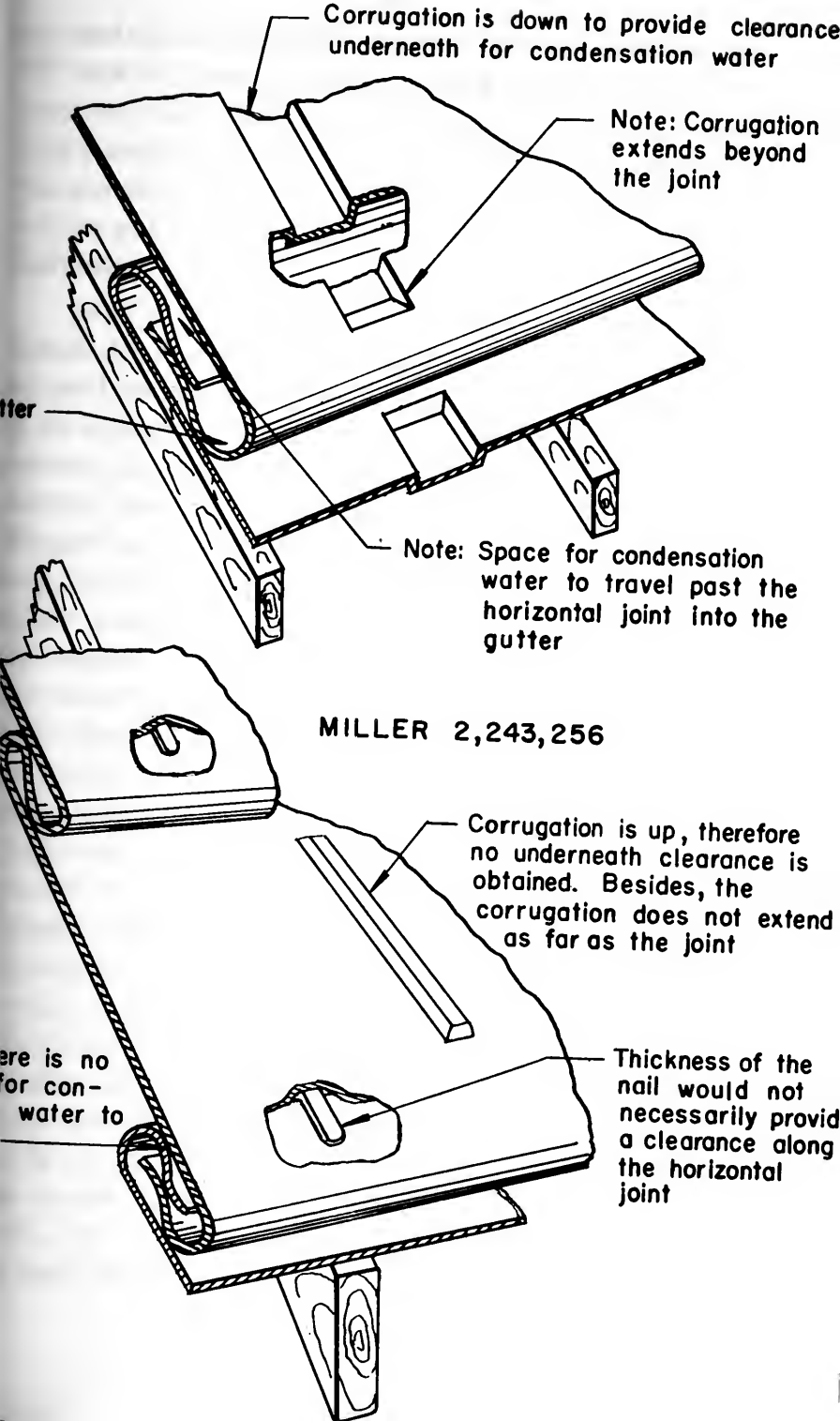
Note: Space for condensation water to travel past the horizontal joint into the gutter

MILLER 2,243,256

Corrugation is up, therefore no underneath clearance is obtained. Besides, the corrugation does not extend as far as the joint

ere is no
for con-
water to

Thickness of the nail would not necessarily provide a clearance along the horizontal joint



SKETCH H

KORTER S. 631,525

36

Corrugation is down to provide clearance

for the... and... for... with...

Corrugation extends beyond the joint



...to... the...



...to... the... of... for...

sate and allow it to reach the gutter, whereas in Miller, the "S" lock as shown in Figure 9 of the patent firmly contacts the inner surface of the shingle (shown at 9) and thus prevents any water from flowing down the interior of the shingle past the "S" joint into the flange. A flange is not a gutter unless it accommodates water, according to Richardson (Tr. 286).

(4) "A drain slot disposed in the gutter of said shingle for draining water therefrom"—in Miller there is no need for any drain slot in the flange 11 because there is no leakage of moisture condensate into the flange for reasons already stated. While it is true that Miller does mention that his "interlocking connections between the shingles as so formed as to prevent the free drainage of rain water that may be driven into said connections"—Miller is talking about the *outside rain that is driven into the vertical joints*—not the horizontal joints—and due to the velocity or driving force of this rain water passing down the interior of the vertical joints such water is forced outwardly at any crack or crevice that might be found at the corner joints of the shingle. But that does not mean that when it isn't raining the slow moving moisture condensate which might form on the inner side of the Miller shingle would find exit through the same cracks or crevices because it could not reach the flange 11 to travel to these cracks or crevices for the reasons shown on Sketch H. Moreover, such cracks or crevices would undoubtedly clog or close up, except on a rainy day, so that even if the water should reach the flange 11, there would be absolutely no assurance that such water would be relieved at the corner joints. Korter (Tr. 150), and Langville (Tr. 188), both said that the crevices could not be relied upon to expel the slow moving moisture condensate which ob-

viously is present on a clear non-rainy day as on a day when such cracks or crevices might have been opened by the downward moving rain water that had penetrated the vertical joints and were using these joints as a down spout.

(5) "Said corrugation ridges on the inner-face of the shingle adapted to space said reversely turned top edge portion of the lower adjacent shingle from the inner-face of said shingle and into said gutter"—in Miller the corrugation ridges are on the *outer* face of the shingle—not on the *inner* face—cannot perform Korter's function. Moreover, in order to serve as a spacing means between the inner-face of the shingle and the upper surface of the inter-locking scroll it is necessary that the corrugations shall extend as far as the joint. But in Miller, as shown in Figure 2, the corrugations stop short of the lower edge of the shingle so that even if these corrugations were located on the inside of the shingle rather than on the outside, they still would not serve to space the top edge portion of the lower adjacent shingle from the inner-face of the shingle to provide a path over the length of the shingle through which the moisture condensate could freely pass. This point is brought out vividly by the Sketch H at page 34 noting that in the upper portion of the sketch, in Korter, the corrugation extends downwardly and beyond the joint, whereas, in Miller, the corrugation is up and terminates far short of the joint.

(3) Miller is not concerned with the problem that Korter solved, namely the elimination of moisture condensate moving slowly in the vertical direction but along the entire length and width of each shingle. Therefore, Miller cannot show apparatus by which the problem could be solved.

Miller makes not one iota of mention (Tr. 260) or suggestion of ridding the inner-surface of the long, double width shingle of condensed moisture. In fact, he failed to mention the use of a gutter along the lower edge of his shingle and definitely lacks a drain opening in the missing gutter. Miller calls his lower bent up edge 11 "a flange"—not a gutter because it could not constitute a gutter unless there was water to be conveyed along the flange. Richardson testified "a gutter is a particular kind of trough that has a flow in it" (Tr. 286). There is *no* water in Miller's horizontal flange 11 so that it cannot constitute a gutter.

To be sure Miller does mention "the interlocking flanges of the shingles are not close fitting and do not hold water by capillary attraction to any extent. As best shown in *Figures 7 and 8, the end flanges are bent* so that they interlock with a minimum amount of surface contact with one another and with the bodies of the shingles, thus permitting *free drainage of water* and facilitating the sliding of one shingle with respect to the adjacent shingles when the shingles are being assembled on a roof." (p. 2, Col. 2, ll. 66-73.)

The "water" mentioned is defined on page 1, col. 1, l. 13 of the patent, as being "rain-water."

It is therefore clear that Miller was not referring to moisture condensate which is residual on the entire inner-surface of the shingle, but instead, he is referring to rain beating against the *vertical* joints and obtaining entrance to these joints which serve as "spouts" (Tr. 288). Figures

7 and 8 of the patent show only vertical joints 5, 7—not the horizontal joints 9, 11.

It will be understood that when rain in any quantity gains entrance to Miller's vertical joint, as in a driving storm, the rain will *rush* down the vertical joints since they are all in line with one another (See Figure 6 of the patent) and to some extent communicate with one another through any corner crevice that may be present at the bottom of these vertical joints or through any opening caused by the looseness between the parts of the vertical joint. If these cracks or crevices become temporarily clogged during fine weather, due to dust and sand in the atmosphere the rush of water downwardly would wash the crevices open in rainy weather. But this is not true of moisture condensate which moves slowly in driblets or beads along the entire inner-surface of the shingle—has no force of movement and only little velocity, and as explained by Korter (Tr. 102) and Langville (Tr. 144) could not unclog a corner crevice or crack.

Your Honors may recall the wetness of a vitreous toilet tank that contains cold water in a warm bathroom, and in which this surface dampness gives rise to sweating that moves slowly over the outer surface of the tank to form beads at the lower edge of the tank. These beads eventually drop as they get larger and become a great nuisance on a tile floor. The moisture of condensation considered in the Korter patent is quite similar to this phenomenon as far as the movement of the condensate is concerned. It slowly moves over the inner-surface of the shingle, and ever so slowly along the gutter so that the slightest obstruction at the end of the gutter would prevent further movement of the collected moisture or sweat. But Miller's problem is entirely different in that he is dealing with leakage of rain water into the shingle and in par-

ticular into the vertical joints of the shingle so that the rain water of which there may be considerable which enters the vertical joint, particularly if the latter were loose and rushes down these joints to seek an exit through any crevice or space that can be found along that joint or may pass from one shingle to the next through the aligned vertical joints before it finds an exit.

Miller makes no mention of getting rid of the moisture of condensation which is more apt to be present on a fine day than during a rainy spell to which the patent is limited. It is, of course, possible that any crack or crevice in the vertical joint of the Miller patent may be completely closed or plugged as far as any water moving in the horizontal direction is concerned in which case the crack or crevice does not perform the function of a "slot" and yet as far as the fast moving downwardly propelled rain water is concerned the same crack or crevice would constitute a slot. But Korter's invention is directed to the use of a slot that is open at all times to the slow moving, less forceful moisture condensate which starts on the inside of the shingle and collects only in horizontal gutters.

The problem which Korter solved arises in fair weather—and is brought about by the difference in temperature on the opposite side of the aluminum shingle (Tr. 91).

In the celebrated case of *Topliff v. Topliff*, 145 U. S. 156, in considering the absence of the problem and its solution in a particular patent, the Court declared:

"It is not sufficient in order to constitute an anticipation of a patented invention, that the device relied upon might, by modification, be made to accomplish the function performed by that invention, if it were not designed by its maker, nor adapted, nor actually used for the performance of such functions."

Coffin v. Ogden, 18 Wall. 120, 21 L. Ed. 821 (appendix p. 8a); *Loom Co. v. Higgins*, 105 U. S. 580, 591 (appendix p. 8a); *N. O. Nelson Mfg. Co. v. F. E. Myers & Bro. Co.*, 25 F. (2d) 659, 663 (C. C. A. 6) (appendix p. 8a); *Gordon Form Lathe Co. v. Walcott Machine Co.* 32 F. (2) 55, 58 (appendix p. 9a).

- (4) The transcript record shows that Miller cannot anticipate the Korter claim.

Langville (Tr. 194) admits that the Miller patent does not show aluminum to which Korter's claims are directed.

In the transcript 205, Langville also admits that:

"A. I don't see in the patent where there is anything mentioned about condensation, in the Miller patent. I fail to see it. I might have missed it in reading it."

Richardson testified:

"Q. Is there anything stated in the Miller patent * * * in connection with the water of condensation and manner of ridding the same, sir?"

A. I don't remember anything at all of that kind. However, of all of the diagonal shingles and the makers of diagonal shingles, Miller was concerned with his vertical joint or getting water down the roof' (Tr. 258.)

- (5) The argument set forth in appellants' brief, pages 44 to 47, as to the alleged pertinency of Miller is spurious.

On page 44 of their brief, under the heading of Miller 2,243,256, appellants have made no entry of any element in Miller that would correspond to the rectangular form of an aluminum shingle in the Korter patent. This is for the reason that Miller does not show an "aluminum" shingle as was admitted by Langville (Tr. 194).

On page 45, under the horizontal entry No. 2, it will be noted that appellants admitted that Miller does not show "said cracks forming ridges on the inner-face of the shingle" because there is no entry (except a small star) opposite this item in the second column of elements. The star apparently refers to corrugations 22a on the inner face of a shingle shown in the *Birch et al.* patent which will be discussed in detail hereinafter but it is sufficient for the moment to state that this particular patent was withdrawn from the appeal by appellants in the Pre-trial Order (Tr. 35) and by this withdrawal, appellants have already admitted the non-pertinency of the patent.

Under the horizontal entry labelled 3 appellants contend that the recitation in Korter's claim "the level edges of the shingle being reversely turned on opposite faces of said shingle" is satisfied by Miller's "reversely turned flanges 5, 7, 9 and 11." This is not true. Please note that in Korter this wording reads: "Upon the down turned left hand edge of the shingle shown in Figure 1 and the up-turned right hand edge 17," whereas, in Miller, flanges 5 at the lateral edges of the upper portion of the shingle, which would correspond to Korter's lateral edges, are *not* reversely turned but *instead are turned in the same direction.*

In regard to feature 8 appearing on page 46 where appellants contend that Miller's flange 11 constitutes a gutter, this is completely in error for reasons stated hereinbefore as it has been shown that there is never any water in the flange to have it constitute a gutter and Miller practically admits such in calling it a *flange* instead of a gutter.

On page 47 under Feature 11, appellants allege that the jog at 3 in Figure 1 constitutes a "drain slot." Nothing could be further from the truth than this because actually that jog would close up the diagonal space between flanges

7 and 11 shown in Figure 2 when the shingle was bent out of the blank shown in Figure 1. This has been brought out illustratively by the photographs I, J.

On photograph I, it will be noted that in the blank sheet of metal, the jog 3 in Figure 1 of Miller has been provided as indicated but when this job is bent up at the corner, as also shown in the same photograph, it completely covers the space between the adjacent edges of the flanges 7, 11 of Figure 2 of Miller so if there were any water in flange 11 (we strenuously deny that there is any) such water could not be relieved at the space between the flanges 7 and 11.

The same condition has been shown in photograph J which typifies the position of the jog 3 as closing the space between flanges 7 and 11 of Miller's Figure 2 at the joint where the lower half of the Miller shingle is inter-locked with the upper half of the next right adjacent shingle and is also inter-locked with the upper half of the lower adjacent shingle to form a joint between four adjacent edges as seen in Figure 6 of the patent. It will be noted in the photograph J that the jog completely closes any opening that might have been present between the flanges 7 and 11 shown in Figure 2 of the Miller patent.

However, we do not deny that there may be a crack or crevice present at the extreme corner position and communicating with the vertical joint in Miller in order to relieve any rain water that might have been driven into the vertical joint. But this crack or crevice in all probability would be clogged insofar as any moisture condensate is concerned, should such condensate reach Miller's flange 11 which we strenuously deny.

Also on page 47 under the same Feature 11, appellants contend that the heads of nails 15, 17 in the Miller patent serve to space the inner-face of the shingle from

MILLER PATENT
NO. 2,243,256
FIGURE 1

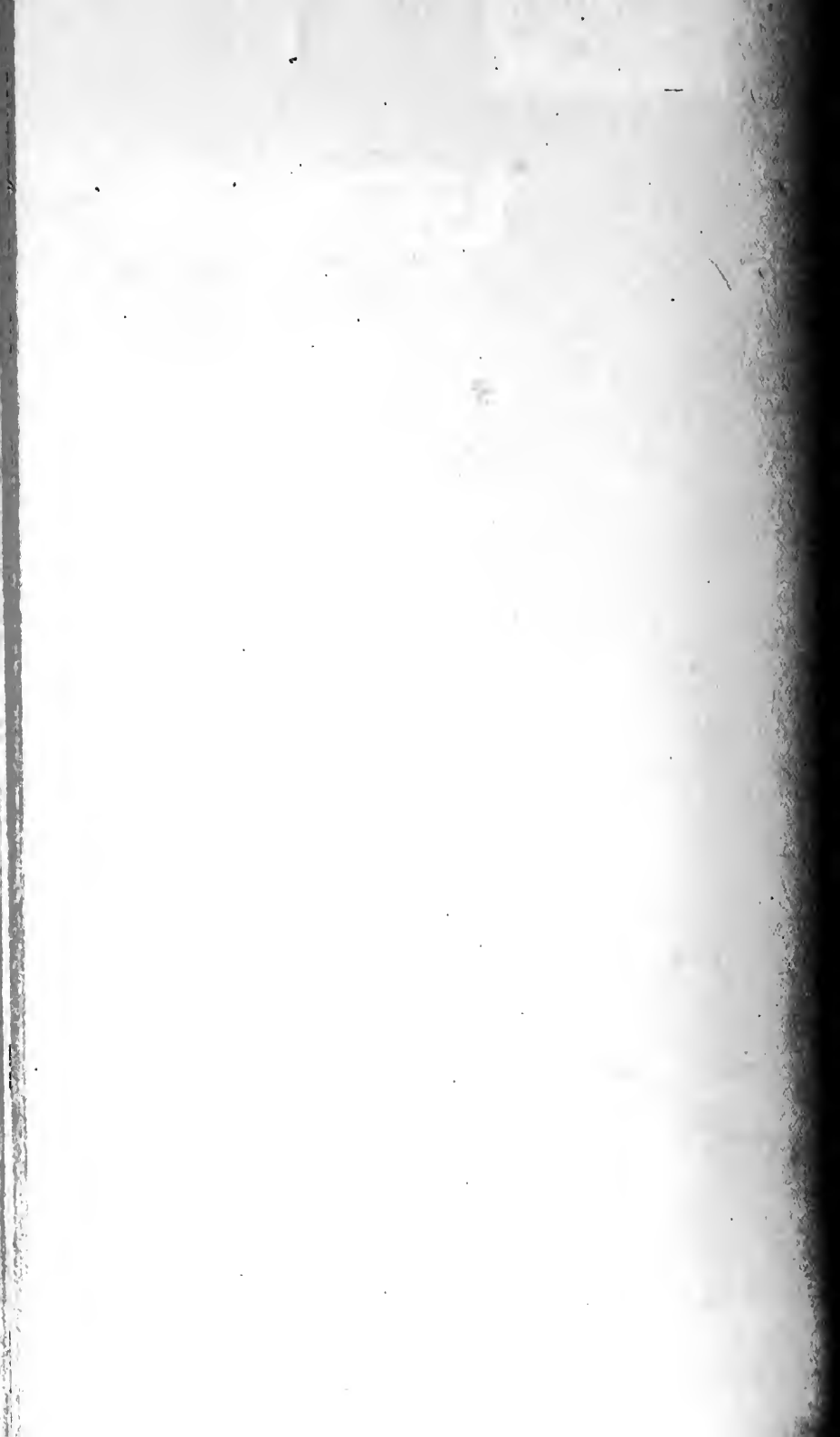
I.

HORIZONTAL FLANGE 10
OF MILLER IN FLAT FORM

JOG 3 IN FIG. 1
OF MILLER PATENT

NOTE THAT JOG CLOSES END
OPENING OF HORIZONTAL FLANGE

HORIZONTAL FLANGE 10 OF
MILLER IN BENT-UP FORM-



SHINGLE

J.

MILLER PATENT
NO. 2,243,256
FIGURE 6

SHINGLE WITH
MIDDLE SEAM



ER PORTION
MIDDLE

NOTE HOW JOG 3 OF MILLER
FIG. 1 SEALS AND PREVENTS



KORTER & ASSOC'S SKETCH

Horizontal Joint



... of the ...
... of the ...
... of the ...
... of the ...
... of the ...

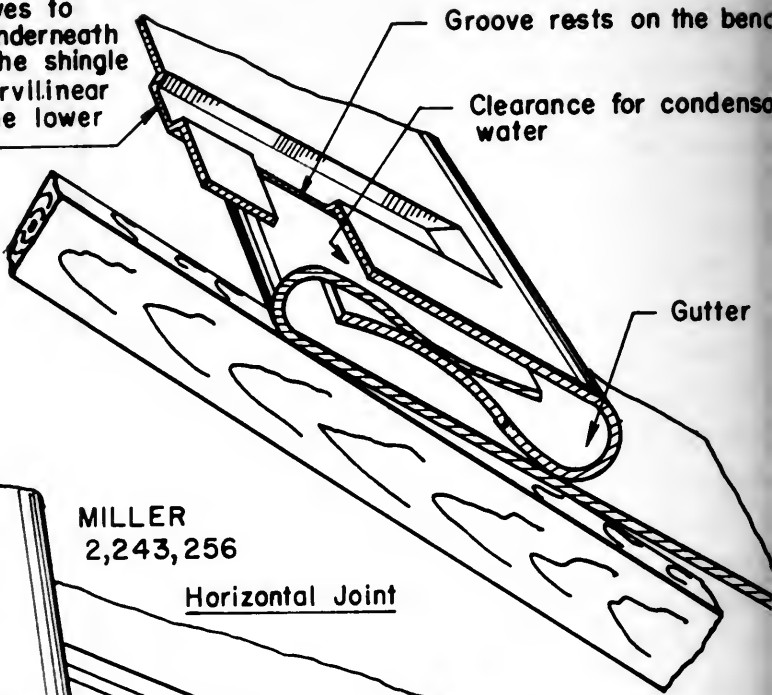


KORTER 2,631,552

SKETCH K

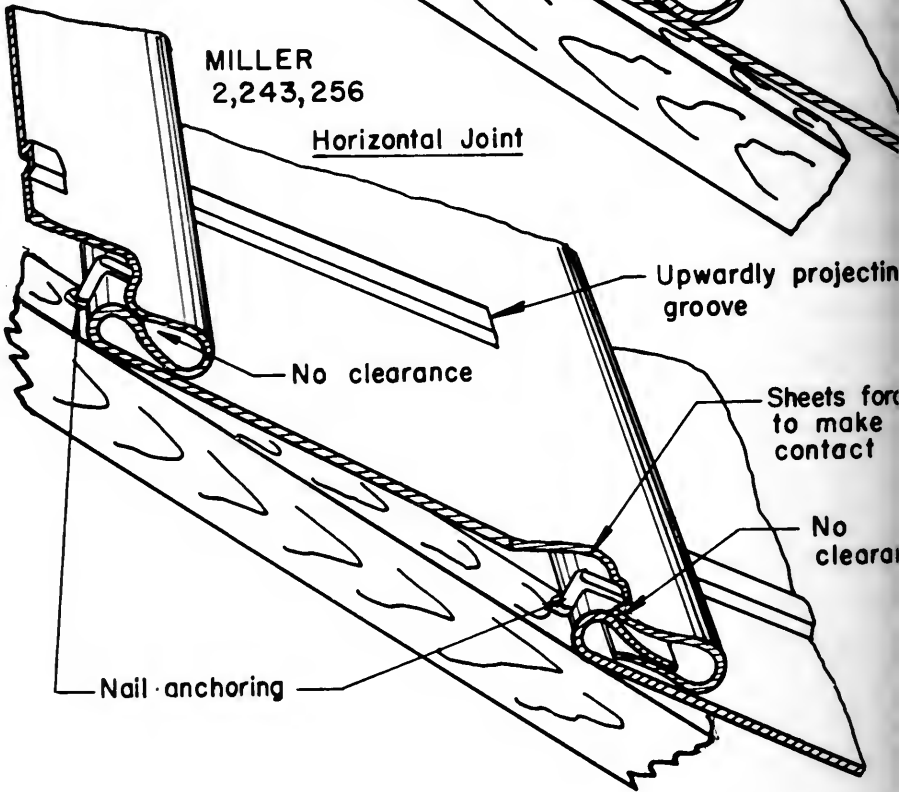
Horizontal Joint

Downwardly projecting groove (serves to space the underneath surface of the shingle from the curvilinear portion of the lower shingle)



MILLER
2,243,256

Horizontal Joint



the top edge portion of the lower adjacent shingle. Will your Honors kindly note that earlier in the catalogue appellants were attempting to combine Birch et al., which shows a downwardly projecting corrugation with Miller in order to provide the spaces and yet under Feature 11 they reverse themselves in now contending that these spaces are provided by the heads of nails 15, 17 in Figure 10 of Miller?

We need hardly remind the Court that Miller makes no mention or suggestion that these nail heads do space the inner surface of the shingle from the upper surface of the joint of the lower adjacent shingle. In fact, Figure 10 shows that they do not, because the inner-facing of the shingle rests directly upon the nail head.

Sketch K indicates the manner in which the inner surface of the shingle contacts the upper surface of the curved joint of the lower adjacent shingle except at the very limited position of the nail head. Please note the legend "no clearance" in the lower of the two figures on sketch K. Then compare the fact that Miller shows no clearance or space through which the moisture condensate could flow with the sizeable space or clearance for condensate water in Korter's diagram on the same sketch brought about by the downwardly extending grooves that rest upon the bend of the joint.

We defy appellants to show or prove that Miller has any spacing whatsoever between the inner surface of his shingle and the upper surface of the bend of the joint of the lower adjacent shingle. The nail head situation advanced by them in their catalog of elements on page 47 is only one of imagination (there was no testimony developed on this point in the Court below) and their contention is distinctly disproved by the sketch K as finding no basis in the Miller patent.

(6) Korter's combination claim was specifically allowed over Miller by the Patent Office. The burden of proving the patent claim invalid is on appellants—have not sustained burden.

The Miller patent was cited by the Patent Office during the prosecution of the Korter case. In fact the Examiner, as shown by the various actions, went into the Miller patent thoroughly and also, incidentally, analyzed a prospective combination with Miller and Birch which he later discarded. The patent claim was allowed over Miller and carries with it the presumption of validity, not only as an issued patent under the Code (35 USCA Sec. 282) but also as being valid over Miller.

We also wish to point out in the same connection that the Birch, Slaughter, Cusack, Pruden, Crawford and British de Sincay patents discussed hereinafter are also contained in the Korter patent file or the earlier Korter application so that the presumptions of validity apply to each of these cases.

Hydraulic Press Mfg. Co. v. Ralph N. Brodie Co. et al. (District Court, N. D. California, S. D.), 51 F. Supp. 205, 59 USPQ 268, affirmed by Ninth C. C. A. in 151 (2) 91, 94 (appendix p. 9a for complete excerpt):

“Both patents were regularly issued. Hence both patents and claims thereof were presumptively valid. * * * All these claims were for combinations. Appellants alleged, in substance and effect, that these combinations were not new, and that therefore the claims were invalid for lack of novelty. The question thus presented was one of fact. On this question appellants had the burden of proof.” (Citing many cases.)

The Ninth Circuit decision affirming the *Hydraulic Press* case immediately above is given in p. 10a, appendix

See also *Hoeltke v. C. M. Kemp Mfg. Co.*, 80 F. (2) 912, 919 (C. C. A. 4) (appendix, p. 9a, for decision excerpt).

The fact that the defendants have not shown the Examiner to be in error (their catalog of elements set forth on pages 44 to 47 of their brief was shown to be wrong), their failure to find in Miller the problem of getting rid of the moisture condensate, the admission by defendants' expert Langville that Miller did not solve the condensate problem (Tr. 205), all lead to the one conclusion—that defendants have not sustained their burden under the law. *Dean Rubber Mfg. Co. et al. v. Killian*, *supra* (appendix p. 13a).

D. The Birch et al. Patent Which Appellants Attempt to Combine With Miller (Bottom of Page 45 of Their Brief) Like Miller, Does Not Consider the Problem of the Elimination of Moisture Condensate on the Interior of the Shingle—Birch Cannot Anticipate.

(1) The Birch patent was withdrawn by the defendants at the pre-trial conference (Tr. 35) and is not strictly involved in the appeal.

The fact that the Birch patent was originally set up in defendants' answer and counterclaim and then deliberately withdrawn at the Pre-trial conference leaves no alternative for the Court other than to assume that defendants admit that Birch is not a proper reference. Moreover, defendants offered not the slightest testimony in regard to Birch so that plaintiffs had no opportunity to cross-examine any of their witnesses as to the contents of this patent. It is therefore entirely improper for appellants to rely in any manner on Birch for the first time in this appeal.

- (2) However, without relinquishing the point that Birch has been disclaimed by defendants as a reference and is not part of this appeal, perhaps out of an abundance of caution, appellee wishes to point out that even if Birch were part of the Record, it still would not anticipate the Korter claim considered either separately or in combination with Miller.

As in the case of Miller, Birch lacks many features of the Korter combination. Actually it has only *one* of Korter's ten claimed features and that is, it does show in Fig. 14 the use of corrugations 22a projecting downwardly from the shingle. But these corrugations are not for the purpose of Korter's corrugations, nor do they have the function of Korter's corrugations, as will be pointed out hereinafter.

We fail to find in Birch "an aluminum shingle"—the patentee mentions no particular metal; Birch lacks the reversely turned curved lateral edge portions because the tongue 31 (Fig. 6 of patent) is intended to fit into a groove into the side adjacent shingle—there is no clasping effect; it has no "S" form of joint at the longitudinal edges; it lacks the recited "gutter" formed of "half round" longitudinal edge portions; it has no "fastening tab integral with the shingle"; no "drain slot" of any kind is mentioned; and, finally, Birch mentions no possibility that if the corrugations were placed on the interior of the shingle they would necessarily serve to space the shingle from the upper surface of the joint of the lower adjacent shingle.

- (3) There is no identity of disclosure between the Miller and Birch patents as would justify combining them—the purposes of the patents are entirely different.

In their desperate efforts to use Miller as a basic reference, and noting that Miller lacks at least the corrugations on the inner surface of the shingle, appellants strive to pick this single isolated feature from Birch (Fig. 14). This

cannot be done unless they can show that the Miller and Birch disclosures are sufficiently germane as to encourage a legitimate substitution or addition. *Lombard et al. v. Coe*, 33 F. Supp. 440, 441 (District Court, District of Columbia) (see appendix p. 12a for excerpt of decision); *Bates v. Coe*, 90 U. S. 31, 25 L. Ed. 68.

Again, in *Ex parte McCollum*, 204 O. G. 1346, 1347, Assistant Commissioner Newton ruled:

“In determining the patentability of a claim over features found only in a plurality of references it is necessary to consider the structural differences specified in the claims, as well as their functional difference or result. If the structures of the several references cannot be combined without the exercise of invention, even though the result is old, the claim should be allowed. If the structures of the references may be combined or substituted one for the other and the combined function or result is new, the claim should be allowed. It is only when both the structural features found in the references may be combined without invention to meet the structure called for by the claim and the function or result involves no invention that the claim should be rejected.”

N. O. Nelson Mfg. Co. v. F. E. Myers & Bro. Co., 25 F. (2) 359, 663 (C. C. A. 6) (see appendix p. 8a for excerpt).

Miller's shingle is a double width affair with entirely different forms of longitudinal and lateral locking joints than Birch and the patents are not directed to the same purpose, nor do they have similar structures.

The law as to combining references was well stated by the Patent Office Board of Appeals in *Ex parte Frank E. Ward*, 35 USPQ 538, 539; *Imhaeuser v. Buerk*, 101 U. S. 647, 660 (see appendix p. 12a).

- (4) Appellants' argument (page 48 of their brief) as to why Miller and Birch should be combined, how to combine, and what would be the result of combining, is both incomplete and not convincing.

Appellants state (bottom of page 47 of their brief) that "Corrugations on the inner face as taught by Birch et al., Fig. 14, provide spacing identically as called for." They made this statement in a last minute attempt to cover up at least one deficiency that they found in the Miller catalog of elements set forth on page 45 of their brief. But before they can pick a desirable element out of thin air or from Birch, they must show what basis there is in Miller to make the substitution, and if the substitution were made, that it would anticipate Korter's claim both in structure and in function. This they cannot do because neither patent mentions or suggests the feature of eliminating the moisture condensate.

Ex Parte Frank E. Ward, supra:

"The patents neither disclose the difficulty nor teach how it is overcome. The combination recited in the claims is clearly new, as far as the art cited is concerned. If the Patents were to be combined as indicated in the rejection no one would know whether the result desired by the applicant would be obtained. The disclosure of the present application is the only one before us that teaches this."

Moreover, if Miller's corrugations 6^c, b¹, b⁵ and c¹ were extended below the shingle, as suggested by Birch, Fig. 14, Miller's corrugation would still not serve to space the inner surface of the shingle from the upper surface of the joint of the lower adjacent shingle because the corrugations would still be *too short*. The corrugations must cover the joint, as shown and claimed by Korter before the spacing feature can be obtained. If the substitution

were made, notwithstanding the absence of any basis for it, there would still be lacking in Miller the use of a "gutter" because in Miller no water reaches the horizontal joint from within or without (as distinguished from the vertical joint, for reasons already stated) and there would still be lacking a "drain slot" because in Miller any crack or crevice would become clogged insofar as the slow-moving, small force of flow of water condensate is concerned.

It is of interest to note in Birch that the only reason for providing the corrugations 22, 22a, whether they be up or down, is set forth on page 2, column 1, of Birch, lines 12 to 20:

"and to make such a long strip resemble several shingles, the length of the strip, as measured from side to side, is broken up by a plurality of division ridges 22, which give the long strip the appearance of a plurality of shingles. These division ridges may be upstanding as in Fig. 3, or alternatively, they may be formed as depressions, such as shown at 22a in Fig. 14."

Does this sound as if a solution of the problem of getting rid of moisture condensate was forthcoming? Certainly not!

E. Slaughter Patent is Not Pertinent.

(1) Slaughter fails to show the ten features of Korter's combination claim.

Slaughter is one of the patents that defendants have grouped together on page 48 of their brief under a broad "shotgun" statement as to what these patents allegedly show when, in fact, individually they show nothing of the kind except in defendants' own imagination. Had the six patents been discussed separately by them, their individual weaknesses as references would have been uncovered.

To mention only a few of Korter's ten claimed features not found in Slaughter; there are no corrugations forming ridges on the *inner face* of the shingle; there are no "S" horizontal locking joints using a "half round" to form a gutter; there is no fastening tab integral with the shingle, no "drain slot" (by which we mean an opening that is always open to slow moving dribblets of water); and, finally, there is no spacing between the inner surface of the shingle and the upper surface of the lower adjacent shingle through which moisture condensate can travel.

(2) Slaughter does not mention or suggest problem of getting rid of moisture condensate—the shingle could not inherently take care of the condensate.

We defy appellants to find any mention or suggestion of ridding the inner surface of Slaughter's shingle of moisture condensate. In fact, Figure 4 of the patent shows a tight joint between the interior of the shingle A and the upper portion of the flap a so that no water could possibly run in and through the joint at C. When the shingles are fitted together on the roof, any small crack or crevice at the corners (if there are any) would undoubtedly fill with dust or sand (as testified to by expert Richardson and defendant Langville), and Slaughter makes no provision to keep them open.

(3) Transcript reference to this patent.

The patent was not advanced by appellants during the trial below and they offered no testimony in regard to it. However, appellee's expert, Richardson, did discuss the patent in Tr. 246 and showed that Slaughter was deficient in so many elements of Korter's combination as not to anticipate. Richardson's testimony was not rebutted on cross examination.

(4) Description of function of Slaughter structure as given on page 48 of appellants' brief, is completely in error.

An examination of Korter's claim will show that the terminology of the claimed elements is not as broad as that set forth in appellants' brief at the place noted. Korter is *not* claiming a mere "metal shingle" but one made of *aluminum*. He is *not* claiming "reversely turned opposite edges adapted to lock into adjacent shingles." Instead he is claiming, "each of said top and bottom turned edge portions comprising a half round portion" so as to form a "gutter." He is *not* claiming "open corners"—instead he is claiming a "drain slot" which means (according to Richardson and the usual dictionary meaning) that water of small velocity and small rate of flow can always pass through—it will never clog.

Appellants' recitation of what the group of the patents show is significant in that it fails to ascribe to any of the patents, including Slaughter, Korter's "corrugations forming ridges on the inner face of the shingle," Korter's gutter for receiving moisture condensate, Korter's drain slot in the gutter for getting rid of the condensate, Korter's spacing brought about by the inverted corrugations between the inner face of the shingle and the reversely turned top edge portion of the lower adjacent shingle "so that moisture can travel along the inner face of the shingle into said gutter" (last three lines of Korter claim). None of the six patents in appellants' group have the structure and function mentioned immediately above.

F. Cusack Patent Utterly Irrelevant.

- (1) All the features covered by Korter's combination claim are lacking in the patent.

To mention only a few of the elements of Korter's claim which Cusack does not have: (1) A shingle of rectangular shape (Cusack's shingle is laid diagonally); (2) Ridges on the inner face of the shingles (Cusack has no corrugations of any kind); (3) The top and bottom turned edge portions comprising a half round so as to constitute an "S" lock (Cusack has a "built-up" edge as shown in Fig. 5); (4) Cusack has no gutter anywhere due to the solid construction of his diagonal edges; (5) No drain slot in the gutter; (6) No spacing between the inner surface of the shingle and top surface of the horizontal joint of the adjacent lower shingle.

- (2) Diamond shaped shingle—not laid rectangular—no spacing between wooden sheathing and shingle—no moisture condensate problem to solve.

The shingles are laid as a "diamond" and have no upper and lower edges—only diagonal edges. Apparently the shingle is nailed, for the most part, *flat* on the roof sheathing so that there is no space over the entire inner surface of the shingle and the roof, and no moisture condensate problem to be solved.

- (3) Appellants' description of this patent given on page 48 of their brief completely in error and misleading—not in accord with the record on appeal.

This patent is completely foreign to Korter's combination claim for all the reasons set forth in connection with the Slaughter patent. Appellants' description on page 48 of their brief is meaningless in its broad terminology as to what Cusack shows and their description amounts to an admission on their part that practically no

specific element of the Korter claim can be found in the patent. Certainly, Korter's problem of ridding the inner surface of a shingle of moisture condensate is lacking, so that no structure in Cusack can offer a solution to this problem.

As in the case of all the patents mentioned in the group on page 48, none of them except Crawford was discussed by the defendants, even though the burden to prove invalidity of Korter's claim rested heavily upon them. However, appellee's expert, Richardson, did discuss Cusack on pages 247 and 248 of the record and that witness could find nothing in Cusack to anticipate Korter. Richardson's testimony was not rebutted.

G. Crawford Does Not Anticipate and Was Discredited Even by Defendants.

- (1) "All the folded edges fastened together are hammered down so as to be substantially flat and perfectly water-proof" (Col. 2, line 98)—lacks all the features of Korter's combination claim.

How can a shingle in its finished form (when laid on a roof) and "hammered down so as to be substantially flat" disclose Korter's "each of said top and bottom turned edge portions comprising a half round portion," or disclose "the turned bottom portion forming a gutter," or a "drain slot * * * for draining water," or provide a space between the inner face of the shingle and the top edge portion of the lower adjacent shingle?

- (2) No mention or suggestion of moisture condensate problem which Korter solved—Crawford shingle presents no way of getting rid of the moisture.

The sole purpose of the Crawford patent, as expressed at page 1, lines 14 and 100, is to have a "substantially flat and perfectly water-proof" shingle. Crawford was con-

cerned solely with the rain water going through the joints and not as to how moisture which originates on the *inside* surface of the shingle can get out.

- (3) Record below shows that demonstration of Crawford shingle put on by defendants was not in accordance with Crawford disclosure.

Appellants put on a demonstration in the trial court with shingles which they said were made according to the Crawford patent, in an attempt to show that moisture on the inner surface of the shingle would run down into a gutter and out through corner openings. But witness Richardson, Tr. 249, 250, showed where appellants used only a *partially made* Crawford shingle and, therefore, *not* in accordance with the teachings of the Crawford patent.

- (4) Description of Crawford shingle given in appellants' brief on page 48 is incorrect.

Appellants have conveniently forgotten to tell the Court in that excerpt that Crawford's shingle in its finished form is hammered flat so that it can have none of the features they attribute to it. Even before it is hammered down, it could not have an "open corner" as alleged by appellants, because the folded corners A⁷, A⁸ are provided for the express purpose of closing all open corners (page 1, line 97). And where do appellants find Korter's inverted corrugations, or the spacing function, in Crawford?

- (5) Defendants have discredited the Crawford patent—hence cannot anticipate.

Defendant Langville, appearing on his own behalf said (Rec. 171):

"A. I believe I am going to disagree with Frederick Crawford. It would not be practical to try to hammer a roof down, every joint, because you couldn't

make it perfectly waterproof unless you do solder the joints.”

While such statement indicates honesty of mind, it certainly does not help to establish the pertinency of Crawford. Langville could only justify Crawford as a reference solely on the springiness of the metal. He said (Rec. 168):

“I don’t believe you can take three pieces of metal * * * and squeeze them together without a certain amount of spring coming out.”

This is further discredit of Crawford who says that his shingle is “hammered flat.” A patent on which defendants themselves cannot rely definitely cannot serve as an anticipation of Korter’s invention.

H. Lewando Patents.

(1) Diamond shaped shingle—not laid rectangularly—lacks all the elements of Korter’s combination claim.

These shingles are not of a “rectangular shape” when laid on the roof. Consequently, they do not have “the top” and “bottom edge” portions reversely turned because there is no top or bottom edge—only diagonal edges. Lewando cannot have “half round” edge portions forming a “gutter,” or a drain opening in the gutter, because all of the joints are “carefully filled with cement” (patent No. 124,963, Col. 2, line 15; patent No. 140,928, Col. 2, line 13).

(2) No mention of Korter’s problem of eliminating water condensate, could not get rid of water as all joints “filled with cement.”

The general purpose of Lewando, like Crawford, was to have a waterproof shingle and thus prevent rain from going through the joints. He makes certain of this by applying “an elastic waterproof cement” to the joints.

Lewando, like Crawford, was not concerned with water that originates on the inner surface of the shingle. The problem of moisture condensate is not mentioned in the patents, and, therefore, no solution offered. The Lewando shingle is intended to lie flat on the roof. There is no intended space between the shingle and the roof and no space for moisture of condensation to collect.

(3) Appellants' description given on page 48 completely in error and misleading.

Appellee would like to ask appellants what happens to the alleged "open corners through which any water that got under the shingle would naturally drain" (as alleged by appellants) when these corners and all joints are filled with cement? Also, how would the water drain when there is no space between the shingle and the roof sheathing, and where are Korter's inverted ridges and their function shown in Lewando?

(4) Transcript record below shows that neither of the Lewando patents can anticipate.

Notwithstanding the fact that defendants have included Lewando in the Pre-trial Order, they took no testimony regarding these patents. Even their own expert Langville, declined to discuss Lewando. Plaintiff was therefore handicapped in bringing out the fallacies of defendants' position through their own witnesses.

However, plaintiff took testimony through their own expert, Richardson, Tr. 243, 244:

"Now in the Lewando patent old art is shown of laying a shingle flat on a roof and sealing the adjacent shingles together so that the shingles after installation become a continuous hermetically sealed metal sheath over the entire roof, thus allowing no air circulation under the roof, and thus not creating the problem of water condensation."

I. Clawson Patent.

(1) No evidence was offered by defendants in the Court below as to this patent—therefore cannot be seriously viewed from anticipation standpoint.

This is still another case of defendants having advanced a patent through the Pre-trial Order, and then declining to go to the trouble of taking testimony on the patent. Or were they afraid of having the lack of anticipation exposed on cross examination?

(2) Lacks at least one-half of the ten features in Korter's patented combination.

Plaintiffs had their expert, Richardson, discuss this patent (Tr. 250, 251). He found that there was missing in Clawson:

(1) Korter's inverted corrugations and their function.

(2) No turned bottom portion.

(3) No mention of condensation of water or its elimination.

(4) It was not a rectangular shingle as defined by the Korter patent.

In addition, we wish to point out that Clawson does not have an "S" joint at the "lower" edge forming a gutter, and no drain slot is mentioned in the patent.

(3) Shows a diamond-shaped shingle—not laid rectangularly—not concerned with Korter's problem of eliminating moisture condensate along a horizontal gutter.

There is nothing in Clawson to indicate that when the shingles are pulled tight on a roof, any space between flanges 10, 11 would not become completely tight and sealed. Appellants cannot assume that there is such a space left and cannot assume that any such opening would remain open and would not become clogged with sand or

dust. In other words, appellants cannot assume that Clawson discloses a "drain opening" or "drain slot" in the absence of a statement to this effect in Clawson. In any case, Clawson makes no mention of moisture condensate or how to get rid of it so that Korter's solution of the problem is not to be found in the patent.

(4) Description given in appellants' brief on page 48 is in error and not supported by any evidence.

It is significant that appellants have not pointed to any particular part of the disclosure of any of the patents mentioned in the group that supports what they say is contained in the group of patents or any specific patent. All that they do is to refer broadly to all of the patents as a group and then to give to this group as a whole certain structure which, in their own imagination, is said to be contained in the group. Why did not appellants pinpoint the structure in any one of the patents? The answer is obvious—they could not. Even if they could, the terminology used when referring to the group of patents is so broad and entirely out of keeping with Korter's specific elements of his combination that the broad reference to the structure of these patents would be of no avail from the anticipatory standpoint.

It has already been pointed out that Clawson makes no mention or suggestion of "open corners through which any water that got under a shingle would naturally drain" because Clawson mentioned no such opening and the very nature of his shingle would be such that no water could get under the shingle. He shows no gutter and no opening in the gutter that is forever open to convey any interior water away.

Appellants' statement on page 48 is both too broad and definitely misleading as far as reference to the alleged structures contained in the various patents is concerned.

J. British Patent de Sincay.

1) Diamond shaped tile—not laid rectangularly—patent lacks many of the ten features of the Korter claim.

This is another patent advanced by defendants in the Pre-trial Order, and they then refused to discuss the alleged anticipation of the patent by their witnesses.

The shingles are laid diagonally, not horizontally as claimed in Korter. Plaintiff's expert witness explained Tr. 263:

“* * * and the very wording of the claim (Korter) together, of course, with the plain specification and drawing shows that they must be rectangular shingles laid with the bottom and top edges horizontal.”

de Sincay has nothing whatever to do with the moisture condensate problem which Korter solved. The patent is concerned only with *rain-water* driven in under the shingles during wind storms and in which water is relieved at openings K, but the rain-water cannot be driven upwardly over the entire length and width of the inner-surface of the shingle, and in any case of the alternate shingle which lays flat against the roof. However, in Korter's case, the moisture condensate is formed over the entire inner surface of each shingle, in *sunshine* weather as well as in *rainy* weather—dependent solely upon temperature changes between the outer and inner surfaces of the shingle, thus showing the complete and utter difference between the problems found in Korter and de Sincay.

The main object of de Sincay's invention is expressed on page 2, lines 17 and 18:

“* * * The tiles of my invention are further designed with a view to prevent the admission of wet or moisture.”

This means that he did not wish rain water to be driven over the inner-surface of the shingle from the out-

side. But in Korter the problem is how to get rid of moisture that does not come from rainy weather but instead comes from the condensation of moisture that originates on the inner-surface of the shingle, quite a different matter.

De Sincay shows no horizontal gutter as claimed and since the tile as laid is diagonal, there is no drain opening in the gutter for receiving moisture condensate as distinguished from driven in rain water. de Sincay does not disclose inverted corrugations for spacing the inner-side of the shingle from the top surface of the lower joint. de Sincay discloses neither Korter's problem nor the structure by which the problem could be solved, it follows that the patent is not a good reference.

- (2) Not concerned with a moisture condensate removal along a horizontal gutter—record below shows that one-half of the shingles lay perfectly flat on the roof so that no drainage of moisture can take place.

Every alternate tile of de Sincay is laid flat on the roof sheathing as seen in Figure 4 while the adjacent tile is parallelly spaced from the roof as shown in Figure 5. Obviously, as to the tile right flat on the roof there is no interior space in which moisture condensate could form and run into the diagonal spouts.

- (3) Description given in appellants' brief, top of page 48, as to alleged flow of moisture condensate is in error and not in accord with the patent disclosure or record below.

Appellants state:

"That any water on the underside of de Sincay's shingle such, for instance, as water condensate would run down through the shingle to the opening K."

But appellees would like to inquire of appellants as to how rain water from without (this is the only kind of water mentioned by de Sincay) could get under the shingle

shown in figure 4 which is nailed flat to the roof. There would be no space for the water to flow—appellants' theory is ridiculous. Appellants have admitted their weakness in the Sincay as a reference when they used the phrase "for instance, as water condensate," showing they supplied the reference to "condensation" out of their own imagination.

None of the patents discussed above mention the primary problem which Korter solved by his claimed combination, the elimination of water condensate which collects on the inner surface of the shingle in good weather as well as bad weather so that no solution of the problem was offered by the prior art except by Korter's own disclosure. This problem and its solution is exceedingly important to metal roofers (Richardson Tr. 83 and Wetle Tr. 221). As submitted, Korter's combination as set forth in the ten features enumerated on page 30 and cooperating together to provide a solution to the problem, represent a distinct step forward in the shingle art. *Alliance Securities Co. v. J. A. Mohr & Son*, 14 F. (2) 793, 796 (N. D. Calif., S. D.) which was affirmed by the Ninth Circuit Court of Appeals in 14 F. (2) 799 with a thorough discussion and list of authorities:

"The plaintiff has disclosed to the world a device which by its use the defendants acknowledge to be useful. The experts of the Patent Office, after the most careful consideration, have pronounced it new. Under these conditions, the law properly requires that all doubts as to the correctness of their action be removed before it will permit a court to say that a patentee has not an exclusive right to his own disclosure."

In summing up defendants' alleged case of anticipation, we submit that none of the ten patents on which they rely, either mentions or suggests the problem of moisture condensate which inevitably forms on the inner surface of

a metal shingle that is spaced from the sheathing, or the problem of how to get rid of such moisture in a practical manner, as by allowing it to drain down the shingle through the joint into a gutter, and thence out through a drain slot onto the weather side of the lower adjacent shingle. Korter's claimed combination covers the solution to this vexing problem and sets forth structure by which the problem was solved. Appellants cannot find this structure in the prior art as a combination of elements because Korter's problem is lacking.

Korter has therefore made a wide advance in the aluminum shingle art which the patent granted by the Patent Office experts acknowledges.

VI. BERGMAN IS PERSONALLY LIABLE FOR INFRINGEMENT.

The Court below made the following findings of Fact (Tr. 48):

“V

Defendant Harry X. Bergman is the *president* of Perma-Lox Aluminum Shingle Corporation, its *principal stockholder* and the *General Manager*, and *launched and organized the business* of manufacturing and selling aluminum shingles (the accused structure) and *had charge of the design of the said shingles* that were manufactured by defendant Langville and sold by defendant Perma-Lox Aluminum Shingle Corporation.

VI

Harry X. *Bergman* and Perma-Lox Aluminum Shingle Corporation *sold* the accused structure and defendant Langville manufactured it for defendant, Perma-Lox Aluminum Shingle Corporation, from July 1952, to at least the date on which the trial was commenced on March 25, 1954, and thereby infringed upon plaintiff's patent.”

These findings of fact are fully supported by the record. The answer alleges affirmatively:

“that he (Bergman) does sell under the name of *Perma-Lox Aluminum Shingle Corporation* (hereinafter sometimes referred to as *Perma-Lox*), aluminum shingles for the roofing of houses, that he did cause to have printed and distributed an advertisement which stated, ‘Do not confuse *Perma-Lox Aluminum shingles* with imitations or other aluminum products of similar name. * * *’ (Tr. 10.)

(The shingles sold, as aforesaid, are the ones which the Court determined to be infringements on plaintiff’s patent.)

In *Martin v. Be-Ge Mfg. Co. et al.*, 109 U. S. P. Q. 240, 241-242 (C. C. A. 9—decided April 19, 1956), the Court held:

“The issue of patent infringement is one of fact (*Stilz v. United States*, 269 U. S. 144, 147; *McRoskey v. Braun Mattress Co.*, 107 F. (2) 143, 147, 43 U. S. P. Q. 318, 321 (C. C. A. 9). This Court may not upset a finding of fact of the District Court “unless clearly erroneous” (Fed. R. Civ. P., Rule 52, 28 U. S. C. A.; *Graver Tank & Mfg. Co. v. Linde Air Products*, 339 U. S. 605, 609, 610 * * *.” (Many authorities cited.)

In the deposition of defendant Bergman (PX 4), he testified that he was the president of *Perma-Lox Aluminum Shingle Corporation*; that the stock of the corporation was all held by himself and members of his family (PX 4, pp. 3 & 4):

Bergman	30%
Bergman’s wife	30%
Bergman’s daughter	15%
Bergman’s son-in-law	15%
Bergman’s niece	5%
Bergman’s nephew	5%
Total	<hr/> 100%

In 1950 Bergman had an aluminum shingle roof installed on his house by the plaintiff corporation (PX 4, p. 5). He personally discussed the shingles (prices, etc.) with Korter and examined the shingles (PX 4, pp. 5 & 6). He, therefore, knew that he (Bergman) was not the inventor of the shingle. In fact, prior to that time, Bergman knew nothing about shingles as he was in the ready-to-wear dress and hotel business (Tr. 227). Bergman commenced the business of selling the accused aluminum shingle roofs in the spring of 1952 (PX 4, p. 4 and Tr. 227).

Bergman organized the defendant corporation in July 1952 under the name of AMERICAN ALUMINUM SALES CORPORATION which was later changed to PERMA-LOX SHINGLE CORPORATION (PX 4, p. 6).

Bergman supervised the advertising material (PX 4, p. 32). Bergman personally did all of the negotiation work with Langville (PX 4, p. 9) and his predecessors in regard to the manufacture of the shingles.

Upon the trial of the action, he testified that he was president of the corporation.

“Q. How did you launch yourself in this business?

A. Well, I happened to know a lot of men in the business, and I was approached—one man who approached me was a Mr. Polsky, * * *” (Tr. 228.)

On cross-examination, Bergman testified:

“Q. Mr. Bergman, aren't you the *General Manager* of the Perma-Lox Corporation?

A. Yes, sir.

Q. And, in general, *you have charge of the design of any shingles that your corporation puts out?*

A. Yes, sir.” (Tr. 233-234.)

Bergman did not merely perform the ordinary duties of an officer (president of a corporation). The record

establishes that he individually launched the business of manufacturing and selling the aluminum shingles which were held to be infringements; that he organized the *family corporation* for the purpose of carrying on the business of manufacturing and selling the accused shingle; that he is the active head of the corporation; that he is the general manager of the corporation; that he had charge of the design of the shingles marketed by the corporation; that he personally sold the infringing shingles and that the corporation is the medium by which he carried on the business of marketing the infringing shingle.

In *this Circuit*, the law relating to the personal liability of an officer of the corporation for infringement, is well settled.

In *Moseley v. United States Appliance Corporation*, 155 F. 2d 25 (C. C. A. 9), the Court held:

“On October 22, 1936, *Keele and Moseley formed Keelmo Company, a California corporation. Keelmo Company was dominated and controlled by Keele and Moseley. They owned all its stock. They and their attorney were its directors. Moseley was its president, Keele its vice president.*

* * * * *

The act of licensing Rilling-Arno Company to manufacture and sell the infringing device was itself an act of infringement. In that act, all the appellants—*Keele, Moseley and Keelmo Company*—participated; for, though not named as parties to the license agreement, *Keele and Moseley* caused the agreement to be made. *Keele*, acting for himself and *Moseley*, commenced the negotiations which resulted in the agreement. *Keele and Moseley formed Keelmo Company* for the purpose of dealing with Rilling-Arno Company. They *dominated and controlled Keelmo Company*, were its officers, directors and only stockholders, made it their agent and instrument, used

it to infringe appellee's patent, and profited by such use. Hence Keele and Moseley, as well as Keelmo Company, were liable as infringers."

In *Dean Rubber Mfg. Co. v. Killian*, 106 F. 2d 316 (8th Cir.), the Court held:

"The record shows that Wilbur J. Dean was the *active, directing head* of the defendant company and *was in charge of the operations* of the plant and gave the orders for its operation; that he was a large *stock holder* and *president* of the defendant company; that he is the owner of the accused patent, and that the *infringing machine* was *built and operated under his personal supervision*. In our opinion these facts justify the findings of the court under the following well recognized statement of the rule: 'We are of opinion, therefore, that by the general principles of law, and by analogy with other torts, a director of a corporation, who, as director, by vote or otherwise, specifically commands the subordinate agents of the corporation to engage in the manufacture and sale of an infringing article, is liable individually in an action at law for damages brought by the owner of the patent so infringed.'

In *Southwestern Tool Co. v. Hughes Tool Co.*, 98 F. 2d 42 (10th Cir.), the Court held:

"The testimony and the inferences reasonably to be drawn from it point to the conclusion that during the period in question Dufek *dominated the corporation*; that he *wilfully and knowingly participated in the acts of infringement*; and that he *used the corporation as an instrument to carry out his own deliberate infringement*. He is, therefore, *jointly liable with the corporation* for the damages resulting from the wrongful acts." (Citing many cases.)

In *Adventures in Good Eating v. Best Places to Eat*, 131 F. 2d 809 (7th Cir.), the Court held:

“It is clear that the defendant corporation was Barrett and that Barrett was the defendant corporation. * * * *He controlled, directed, and participated in the infringement.* I conclude that Carl A. Barrett is liable for infringement.’

The District Court’s acceptance of this finding must be accepted by us, for substantial evidence supports it.

The rule announced by this Court, in *Dangler v. Imperial Machine Co.*, 11 F. 2d 945, 947, we adhere to. There, we said

‘It is when the officer acts willfully and knowingly—that is, when he personally participates in the manufacture or sale of the infringing article (acts other than as an officer), or *when he uses the corporation as an instrument to carry out his own willful and deliberate infringements*, or when he knowingly uses an irresponsible corporation with the purpose of avoiding personal liability—that *officers are held jointly with the company*. The foregoing are by no means cited as the only instances when the officers may be held liable, but they are sufficient for the present case.’”

In *Marks v. Polaroid Corporation*, 129 F. Supp. 243 (U. S. Dist. Ct., D. Mass.), the Court held:

“I am convinced that Marks *participated* sufficiently *with the corporation* in the infringement of the defendant’s patents to hold him personally liable for such infringement. As the evidence shows, Marks was president of Depix from its inception until a day before it discontinued the manufacture of polarizers. *Depix was a small family corporation organized by Marks and his brother.* The latter two together with their mother were the only officers in the corporation and the three owned all its stock through ownership of another corporation which in turn held the stock of Depix. Marks supervised and directed the build-

ing of machines and equipment used by Depix in manufacturing its commercial product. * * *

These facts and others show that Marks participated actively in the business of the corporation and that *but for his direct contributions, the infringement complained of here would never have resulted.* Accordingly, I find this plaintiff a guiding spirit behind the infringement and hold him personally liable with the corporation for its occurrence." (Citing numerous cases.)

General Motors Corporation v. Provus, 100 F. (2) 562 (C. C. A. 7) (appendix p. 13a); *Gere v. Canal Boiler Works*, 33 F. Supp. 558 (D. C., W. D. Wash. N. D.) (appendix p. 14a).

In *Electrical Products Corporation v. Neale*, 48 F. 2d 824 (D. Ct., S. D. Cal., Central Div.), the Court held:

"The defendants Edward G. Neale and Thomas N. Neale are individually *liable* for the acts of Neale, Inc., *by reason of their control and direction of the corporation's business and their ownership of practically all of the capital stock of the corporation.*"

In *Claude Neon Lights, Inc. v. American Neon Light Corporation*, 39 F. 2d 548 (2nd Cir.), the Court held:

"The directors of the American Neon Light Corporation were properly enjoined from continuing the infringement. This corporation was organized after the introduction of the invention into this country and after it had attained considerable commercial success. The corporation was organized to enter the neon sign business. There was litigation pending in the various courts of the United States for infringement of this patent. *The directors were more than merely organizing a corporation; they specifically depended upon the manufacture and sale of neon luminescent tubes which reasonable men would have known were an infringement of the patent in suit.*

* * * *All persons who participate in the infringement are liable, although some are simply acting as officers of the corporation.* * * * *National Car-Brake Shoe Co. v. Terre Haute Car & Mfg. Co. (C. C.) 19 F. 514.* * * * *They become liable when they do exceed their authority and use the corporation to carry out their own willful and deliberate infringement. Dangler v. Imperial Machine Co. (C. C. A.) 11 F. (2d) 945."*

See also Patents, 69 C. J. S., 918, Sec. 315—appendix, p. 14a.

In *Krieger v. Colby*, 106 F. Supp. 124 (Cal.), the Court held:

"The person who infringes a patent is committing a tort, 69 C. J. S., Patents, § 42; *Lincoln Engineering Co. of Illinois v. Stewart-Warner Co.*, 7 Cir., 91 F. 2d 757, and *Metallizing Engineering Co. v. Metallizing Co. of America*, D. C., 62 F. Supp. 274, and from the evidence adduced herein it seems to this Court that *Colby is a joint Tort-feasor.*"

Infringement is a tort and the rule of liability applies in patent cases the same as it does in all tort cases that the individual who actively commits the tort is jointly liable with the corporation, whether he be an officer, director, stockholder or employee.

And so, one who launches upon a program of pirating an invention and organizes a corporation to carry on the business of infringing and actively designs the infringing device, manages the corporation in the manufacture and sale of the device, is clearly a joint tortfeasor.

We believe that this Court will wish to discourage persons who are put into a position, such as Bergman, to know all of the inventive features of a shingle put out by a bonafide shingle manufacturer (Korter) and who then, having no present knowledge of the shingle business except that which was gained by an inspection of the pur-

chased shingle, starts up a corporation, and completely controls the same for the express purpose of manufacturing and selling shingles of the same character as that which had been supplied to him on a bonafide sale by the reputable shingle manufacturer. It follows that Bergman, as well as his corporation, are singly and jointly liable for the infringement.

A. Defendants' Cases Distinguished.

The case of *Powder Power Tool Corporation v. Powder Actuated Tool Company*, 230 F. 2d 409 (7th Cir.), is not at all in point. In that case, the individual sought to be held liable did not individually engage in any act of infringement. The infringing device was "designed" by another person. The corporation, which was found guilty of infringement, was organized long prior to the granting of the patent which was infringed. Upon this significant fact, the Court said:

"When defendant company was organized there was no patent in existence, and defendants had no knowledge that a patent might issue, hence the company could not have been organized to carry on a wilful and deliberate infringement."

In the case at bar, the facts are diametrically opposed. Here, defendant Bergman launched upon the pirating of Korter's invention prior to the formation of his corporation. He formed the corporation for the very purpose of engaging in the business of manufacturing and selling the infringing shingles. The *family corporation* engaged entirely in the manufacturing and sale of the infringing shingle.

The Court did not in the slightest degree recede from the rule which it recognized in the *Dangler* case (11 F.

2d 945) that an officer of a corporation is jointly liable with the corporation where he forms a corporation for the purpose of engaging in the infringement and personally participates therein.

In the case of *Tinsel Corporation v. B. Haupt & Co.*, 25 F. 2d 318, cited by appellant, it was sought to hold officers of the corporation liable merely because they were officers and *not by reason of any personal participation* in the commission of the infringement as in the case at bar.

In *Dangler v. Imperial Machine Co.*, 11 F. 2d 945 (7th Cir.), cited by appellant, it was sought to hold officers liable merely because they were officers of the corporation and *not by reason of personal active participation in the infringement* or in the creation of the corporation that was to engage in the infringement. The Court recognized that under conditions such as in the case at bar, officers of a corporation must be held liable as joint tortfeasors. See quotation in *Adventures* case, *supra*.

In *D'Arcy Spring Co. v. Marshall Ventilated Mattress Co.*, 259 Fed. 236 (6th Cir.), cited by appellant, the Court held that an officer is not liable

“unless the officer inflicted the damages.”

The facts as to the relationship of the officer to the corporation and the extent to which he participated in the infringement are not set forth and it is apparent that there was no evidence of such participation as would make the officer a joint tortfeasor.

VII. CONCLUSION.

1. The Korter patent 2,631,552 is infringed by the accused shingle. (PX-3.)

2. Each of the defendants are severally and jointly liable in damages for such infringement including personal liability of Harry X. Bergman.

3. The Korter patent is valid.

4. The holding of the trial court as to infringement, the liability of each of the defendants, severally and jointly, and validity of the Korter patent should be sustained.

5. The findings of fact, conclusions of law and Decree of the Court below (Tr. 46 to 56) should be affirmed.

Respectfully submitted,

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APPENDIX.



APPENDIX OF DECISIONS.

Specialty Equipment & Machinery Corp. v. Zell Motor Car Co., 193 F. (2) 515-519 (C. C. A. 4), the Court held:

“In the case of *Crown Cork & Seal Co. v. Aluminum Stopper Co.*, 4 Cir., 108 F. 845, 866, this court, speaking through Judge Brawley, said: ‘Infringement is not avoided by mere change of form, or renewals of parts, or reductions of dimensions, or the substitution of mechanical equivalents, or the studious avoidance of the literal definition of specifications and claims, or the superadding of some improvement. The court will look through the disguises, however ingenious, to see whether the inventive idea of the original patentee has been appropriated, and whether the defendants’ device contains the material features of the patent in suit, and will declare infringement even when those features have been supplemented and modified to such an extent that the defendant may be entitled to a patent for the improvement.’ See also *Sanitary Refrigerator Co. v. Winters*, 280 U. S. 30, 41-42, 50 S. Ct. 9, 74 L. Ed. 147; *Frick Co. v. Lindsay*, 4 Cir., 27 F. 2d 59, 62; *Hartford Empire Co. v. Swindell Bros.*, 4 Cir., 96 F. 2d 227, 231.”

In *United States Rubber Co. v. General Tire & Rubber Co.*, 128 F. (2) 104, 108, 109, the Circuit Court of Appeals, Sixth Circuit, speaking through Circuit Judge Martin, said:

“Appellant correctly asserts that even where the invention must be restricted in view of the prior art to the form shown and described by the patentee without extension to embrace a new form constituting a substantial departure, *there is infringement where the departure is merely colorable*. *E. H. Bardes Range & Foundry Company v. American Engineering Company*, 6 Cir., 109 F. 2d 696, 698; *Duff v. Sterling Pump Company*, 107 U. S. 636, 639, 2 S. Ct. 487, 27

L. Ed. 517; Sanitary Refrigerator Company v. Winters, 280 U. S. 30, 41, 50 S. Ct. 9, 74 L. Ed. 147. Furthermore, except where form is of the essence of the invention, one device is an infringement of another '*if it performs substantially the same function in substantially the same way to obtain the same result.*' Union Paper Bag Machine Company v. Murphy, 97 U. S. 120, 125, 24 L. Ed. 935. It is also well settled that, although some change in form and position is apparent, a close copy which uses the substance of an invention, employs the same device, performing the same offices with no change in principle, constitutes infringement of the invention. Ives v. Hamilton, 92 U. S. 426, 430, 23 L. Ed. 494; E. H. Bardes Range & Foundry Company v. American Engineering Company, *supra*. *Infringement is not avoided by change in degree, so long as the distinguishing function is retained, or by adding elements to the complete structure of the patent claim.* Murray v. Detroit Wire Spring Company, 6 Cir., 206 F. 465, 468. Inasmuch as specifications and claims are addressed to persons skilled in the art, the claims of a patent should be construed liberally to uphold and not to destroy the rights of the inventor. National Battery Company v. Richardson Company, 6 Cir., 63 F. 2d 289, 293. In Walker on Patents (Deller's Edition), Vol. 3, Sec. 482, pages 1728, 1729, the author says:

'A combination of old elements which accomplishes a new and beneficial result, or attains an old result in a more facile, economical or efficient way, may be protected by a patent as securely as a new machine or composition of matter. * * * And the doctrine of mechanical equivalents is governed by the same rules and has the same application when the infringement of a patent for a combination is in question as when the issue is over the infringement of a patent for any other invention.' "

Sanitary Refrigerator Company v. Winters et al., 280 U. S. 30, 42, in which the Supreme Court said:

“* * * ‘Authorities concur that the substantial equivalent of a thing, in the sense of the patent law, is the same as the thing itself; so that if *two devices do the same work in substantially the same way, and accomplish substantially the same result, they are the same even though they differ in name, form, or shape.*’ *Machine Co. v. Murphy*, 97 U. S. 120, 125. And see *Elizabeth v. Pavement Co.*, 97 U. S. 126, 137. *That mere colorable departures from the patented device do not avoid infringement*, see *McCormick v. Talcott*, 20 How. 402, 405. A close copy which seeks to use the substance of the invention, and, although showing some change in form and position, uses substantially the same devices, performing precisely the same offices with no change in principle, constitutes an infringement. *Ives v. Hamilton*, 92 U. S. 426, 430. And even where, in view of the state of the art, the invention must be restricted to the form shown and described by the patentee and cannot be extended to embrace a new form which is a substantial departure therefrom, it is nevertheless infringed by a device in which there is no substantial departure from the description in the patent, but a mere colorable departure therefrom. Compare *Duff v. Sterling Pump Co.*, 107 U. S. 636, 639.”

General Motors Corporation v. Kesling, 164 F. (2) 24, 833 (C. C. A. 8):

“The parties agree that to constitute infringement the accused device must, in a patent sense, accomplish the same result and by the same means and by the same method of operation. *Sanitary Refrigerator Co. v. Winters*, 280 U. S. 30, 42, 50 S. Ct. 9, 74 L. Ed. 147; *Montgomery Ward & Company v. Clair*, 8 Cir., 123 F. 2d 878, 881; *McDonough v. Johnson-Wentworth Co.*, 8 Cir., 30 F. 2d 375, 383; *Electric Protection Co.*, 8 Cir., 184 F. 916, 923.”

35 U. S. C. A. 120 (Codification Act of 1953) provides:

“An application for patent for an invention disclosed in the manner provided by the first paragraph of Section 112 of this title in an application previously filed in the United States by the same inventor shall have the same effect, as to such invention as though filed on the date of the prior application if filed before the patenting or abandonment of or termination of proceedings on the first application or on an application similarly entitled to the benefit of the filing date of the first application and if it contains or is amended to contain a specific reference to the earlier filed application.”

(*Westinghouse Electric & Mfg. Co. v. Condit Electrical Mfg. Co.*, 194 Fed. 427.) Judge Learned Hand adhered to the general rule as set forth in *Campbell Metal Window Corporation v. S. H. Pomeroy & Co.*, 300 Fed. 872, 874, in which he said:

“I do not understand that this case meant to require me to go through all that was said in the endless communications between applicant and Examiner to gather piecemeal the intent of the grant, as though I were construing a correspondence. If so, what is the purpose of the final formal instrument? The reference of the court to such confirmation of an otherwise clear meaning is not to be taken as establishing a general rule. In any event, it is well settled by authorities binding upon me that in this circuit we do not look to such exterior expression of intent, but treat a patent as we should a will, a deed, or any other instrument intended to be a final memorial of the parties' intention. *Westinghouse Elec. Co. v. Condit Elect. Co.* (C. C. A. 2) 194 Fed. 427, 430, 114 C. C. A. 389; *Auto Pneumatic Action Co. v. Kindley & Collins* 247 Fed. 323, 328, 159 C. C. A. 417; *Spaulding & Bros v. Wanamaker* (C. C. A. 2) 256 Fed. 530, 533, 534 167 C. C. A. 602.”

Goodwin Film & Camera Co. v. Eastman Kodak Co.
(District Court, W. D. New York), 207 Fed. 351, 357:

“The general rule is that the interpretation to be placed on a patent is to be determined by the language of the grant, and that the proceedings of the Patent Office are immaterial unless, of course, the patentee by his acquiescence has accepted limitations imposed by the rejection of broader claims. *Westinghouse Elec. & Mfg. Co. v. Condit Elec. Mfg. Co.*, 194 Fed. 427, 114 C. C. A. 389; *Beach v. American Box-Mach. Co.* (C. C.) 63 Fed. 597.”

Dean Rubber Mfg. Co. et al. v. Killian, 106 F. (2)
16, 320 (C. C. A. 8):

“While the file wrapper shows a rejection of certain of the original claims for anticipation by Hadfield, taken with Brubaker, and that the claims were amended and the patent issued upon the amended claims, a comparison of the original claims with those upon which the patent finally issued does not, in our opinion, disclose anything which would operate as a file wrapper estoppel. We find nothing in the proceedings before the examiner to indicate that the original claims were narrowed in their scope for the purpose of avoiding rejection. The language of the amended claims is, in some respects, more definite than that employed in the original claim, but reading all of the claims together, they are not essentially different than in their original forms. We find no evidence of a surrender of any substantial claim as a condition upon which the patent was issued. We cannot agree with defendants’ contention as to file wrapper estoppel.”

Baltzley et al. v. Spengler Loomis Mfg. Co. et al.,
262 Fed. 423, 426 (C. C. A. 2):

“The argument for noninfringement is sought to be strengthened by reference to the contents of the file wrapper. * * * Having from this viewpoint ex-

amined the file wrapper, we are of opinion that the patentee's disclosure stated fully and at first facts sufficient upon which to ground the claims in suit, and such claims or their equivalents he never receded from. Many claims, first propounded, were obviously too broad; but Baltzley never 'accepted limitations imposed by the rejection of broader claims' and affecting the claims in suit. The residuum is ample for the purpose of this case. See *Goodwin et al. v. Eastman, etc., Co.* (D. C.) 207 Fed. 357 affirmed 213 Fed. 231, 129 C. C. A. 575."

In *Bullock Electric Mfg. Co. et al. v. Crocker-Wheeler Co.*, 141 Fed. 101, 110 (Circuit Court, D. New Jersey), it was stated:

"Conceding for the purpose of the argument, that method claim 1 and canceled claim 3 are the same in substance and differ only in form, no authority has been referred to holding that, if one of several claims in an application for a patent be canceled while the application is pending in the patent office, a retained claim substantially the same as the canceled one is thereby annulled. * * * but, if two claims in an application for a patent should inadvertently be expressed in identical language, the withdrawal or cancellation of one of them would not affect the other."

Ex parte Collins as reported in 44 USPQ 82, 84 the Patent Office Board of Appeals said:

"* * * but until an application has matured into a patent, we know of no authority which estops one by cancellation from representing the cancelled subject matter. *Obviously, until a patent is granted, there is no dedication of any disclosed but not claimed subject matter to the public* and therefore no injury if an attempt is made to subsequently reclaim the canceled subject matter. Thus, one of the essential elements of estoppel, injury, is absent."

General Electric Corporation v. Hygrade Sylvania Corporation et al., 67 USPQ 72, 75, in which District Judge Leibell said:

“In considering these contentions, we start with the general proposition that the applicant for a patent is not barred from restoring to his patent application, *before the patent is issued*, any claim which he might theretofore have cancelled, even if the cancellation was made because of citations of the prior art. *Ex parte Collins*, 44 USPQ 82, 84.”

In the book entitled “*Patent Office Rules and Practice*” by Leon H. Amdur (who is considered a well known authority on the intricacies of Patent Office Practice), states at Sec. 199c:

“The rule of *res adjudicata* is applicable only where there has been a final decision (final rejection). In this case (*Ex parte Pierce*, 4 Gour. 43:36) the Commissioner said that an applicant should not be precluded from inserting a claim because he has previously presented and canceled a claim having the same scope, said claim not having been finally rejected.”

Ensign Carburetor Co. v. Zenith-Detroit Corporation, 36 F. 2d 684, 686 (C. C. A. 2):

“The patent in suit was granted only after a consideration of the principal prior patents which are now referred to as anticipations: Noyes, Nos. 979,788 and 993,097; British patent No. 1217, of 1905, to Peloux; Stewart patent, No. 960,601. Having had this consideration before the patent issued, the usual presumption of validity which accompanies the grant is greatly reinforced. *Smokador Mfg. Co., Inc. v. Tubular Products Co.* (C. C. A.) 31 F. (2d) 255; *Foster v. T. L. Smith Co.* (C. C. A.) 244 F. 946.”

Anraku v. General Electric Co., 80 F. 2d, 958, 960 (C. C. A. 9—Circuit Judge Haney):

“In the case last cited 67 F. (2d) 807, page 809 it is said:

‘In its brief, the appellant * * * says: “The general rule is that a patent is presumptively valid. This presumption arises from the grant of the patent by the Patent Office after the application has been examined thoroughly by the Examiner.”

“The foregoing excerpt unquestionably correctly states both the rule of law and the reason therefor.’”

N. O. Nelson Mfg. Co. v. F. E. Myers & Bro. Co., 21 F. 2d 659, 663 (C. C. A. 6):

“* * * And a patent otherwise valid is not void for anticipation because a prior patent covers a device which might be so constructed as to be capable of the same use as that of the later patent, where the prior art gives no suggestion that such use was contemplated and no specific directions for such construction. *Topliff v. Topliff*, 145 U. S. 156, 161, 12 S. Ct. 825, 36 L. Ed. 658; *Canda v. Michigan Co.* (C. C. A. 6), 124 F. 2d 486, 492.”

Coffin v. Ogden, 18 Wall. 120, 21 L. Ed. 821:

“The invention or discovery relied on as a defense must have been complete and capable of producing the result.”

Loom Co. v. Higgins, 105 U. S. 580, 591:

“* * * It may be laid down as a general rule though perhaps not an invariable one, that if a new combination and arrangement of known elements produce a new and beneficial result, never attained before, it is evidence of invention. * * *”

In *Gordon Form Lathe Co. v. Walcott Mach. Co.*, 32 F. (2) 55, 58 (Circuit Court of Appeals, Sixth Circuit) Judge Hickenlooper stated:

“Those patents cannot be considered as anticipations which do not disclose the purpose, means, and mechanism for accomplishing the end of the patent in suit, and which are restricted, by the mechanisms disclosed, to the accomplishment only of a substantially different and limited purpose. *Eibel Process Co. v. Minnesota & Ontario Paper Co.*, 261 U. S. 45, 66, 43 S. Ct. 322 (67 L. Ed. 523); *Canda et al. v. Michigan M. Iron Co.*, 124 F. 486, 493 (C. C. A. 6); *Munising Paper Co. v. American Sulphite Pulp Co.*, 228 F. 700, 703 (C. C. A. 6); *Hobbs et al. v. Beach*, 180 U. S. 383-392, 21 S. Ct. 409 (45 L. Ed. 586); *Fulton Co. v. Bishop & Babcock Co.*, 284 F. 774, 777 (C. C. A. 6).”

In *Hydraulic Press Mfg. Co. v. Ralph N. Brodie Co. et al.*, (District Court, N. D. California, S. D.) 51 F. Supp. 202, 205, 59 USPQ 268, District Judge Goodman stated:

“If by virtue of the combination, the purpose is accomplished in a manner never theretofore disclosed, it has that novelty which bespeaks for it the monopoly bestowed under the patent law. *Hoeltke v. Kemp Mfg. Co.*, 4 Cir., 80 F. 2d 912.”

The *Hoeltke* case on which Judge Goodman relied is found in 80 F. (2) 912, 919 (*Hoeltke v. C. M. Kemp Mfg. Co.*) in which Circuit Judge Parker (Circuit Court of Appeals, Fourth Circuit) said:

“We think there can be no doubt as to the patentability of complainant’s device; but if there were doubt, there can be no question but that this doubt should be resolved in favor of the validity of the patent. *The ordinary presumption of novelty arising from the grant of the patent is greatly strengthened*

because of the contest in the Patent Office. *Hildreth v. Mastoras*, 257 U. S. 27, 32, 42 S. Ct. 20, 66 L. Ed. 112; *Gairing Tool Co. v. Eclipse Interchangeable Counterbore Co.* (C. C. A. 6th) 48 F. (2d) 73; *Smokador Mfg. Co. v. Tubular Products Co.* (C. C. A. 2d) 31 F. (2d) 255; *Ensign Carburetor Co. v. Zenith-Detroit Corporation* (C. C. A. 2d) 36 F. (2d) 684, 686. *The invention filled a want in the industry and entered into immediate use when placed on the market by the defendant.* *Temco Co. v. Apco Co.*, 275 U. S. 319, 48 S. Ct. 170, 72 L. Ed. 298; *Diamond Rubber Co. v. Consolidated Rubber Tire Co.*, supra; *Pangborn Corporation v. W. W. Sly Mfg. Co.* (C. C. A. 4th) 284 F. 217. And in addition to this we have the presumption arising from the imitation of the patented article by the manufacturers of the alleged infringing device. As to this, we agree with what was said by Judge Hough, speaking for the Circuit Court of Appeals of the Second Circuit in *Kurtz v. Belle Hat Lining Co.*, 280 F. 277, 281; "The imitation of a thing patented by a defendant, who denies invention, has often been regarded, perhaps especially in this circuit, as conclusive evidence of what the defendant thinks of the patent, and persuasive of what the rest of the world ought to think." See also, *Black & Decker Mfg. Co. v. Baltimore Truck Tire Service Corp.*, supra, 40 F. (2d) 910, at page 914."

The Circuit Court of Appeals, Ninth Circuit, upheld the reasoning of Judge Goodman in the *Hydraulic Press v. Brodie* case in *Ralph N. Brodie Co. et al. v. Hydraulic Press Mfg. Co.* (C. C. A. 9) 151 F. (2) 91, 94, in which the Court said:

"Both patents were regularly issued. Hence both patents and all claims thereof were presumptively valid. (*Radio Corporation of America v. Radio Engineering Laboratories*, 293 U. S. 1, 7-10, 54 S. Ct. 752,

78 L. Ed. 1453; *Reinharts v. Caterpillar Tractor Co.*, 9 Cir., 85 F. 2d 628, 630.) *Hence the burden of establishing the invalidity* of claims 7, 9, 10, 11, 14 and 15 of patent No. 2,067,265 and claims 7, 8, 9 and 10 of patent No. 2,136,240 *rested on appellants.*

“All of these claims were for combinations. Appellants alleged, in substance and effect, that these combination were not new, and that therefore the claims were invalid for lack of novelty. The question thus presented was one of fact. *On this question, appellants had the burden of proof.* (*Mumm v. Jacob E. Decker & Sons*, 301 U. S. 168, 171, 57 S. Ct. 675, 81 L. Ed. 983; *Parker v. Stebler*, 9 Cir., 177 F. 210, 212; *San Francisco Cornice Co. v. Beyrle*, 9 Cir., 195 F. 516, 518; *Diamond Patent Co. v. S. E. Carr Co.*, 9 Cir., 217 F. 400, 402; *Los Angeles Lime Co. v. Nye*, 9 Cir., 270 F. 155, 163; *Schumacher v. Buttonlath Mfg. Co.*, 9 Cir., 292 F. 522, 531).

“Appellants alleged, in substance and effect, that the combinations did not involve invention, but were merely the product of ordinary skill, and that therefore the claims were invalid for lack of invention. The question thus presented was one of fact. On this question, appellants had the burden of proof. (*Hunt Bros. Fruit Packing Co. v. Cassidy*, 9 Cir., 53 F. 257, 259; *Reinharts v. Caterpillar Tractor Co.*, *supra*; *National Nut Co. v. Sontag Chain Stores Co.*, 9 Cir., 107 F. 2d, 318, 333).

“On both questions—the question of novelty and the question of invention—the evidence was conflicting. Resolving the conflicts in favor of appellee, the court found that the combinations were new, that they involved invention, and that therefore the claims were not invalid for lack of novelty or for lack of invention. These findings are supported by substantial evidence, are not clearly erroneous and should not be set aside.”

Lombard et al. v. Coe, 33 F. Supp. 440, 441, the District Court, District of Columbia:

“To justify the rejection of the claims it was necessary for the Examiner to combine a number of prior art patents. He points out that a part of the invention is found in one patent, and another part in another, and still another part in a third or fourth one, and then draws the conclusion that the applicant is not the original or first inventor. This is not proper. *Bates v. Coe*, 90 U. S. 31, 25 L. Ed. 68.”

The law as to combining references was well stated by the Patent Office Board of Appeals in *Ex parte Frank E. Ward*, 35 USPQ 538, 539:

“The patents neither disclose the difficulty nor teach how it is overcome. The combination recited in the claims is clearly new as far as the art cited is concerned. If the patents were to be combined as indicated in the rejection no one would know why they should be combined or whether the result desired by the applicant would be obtained. The disclosure of the present application is the only one before us that teaches this.”

Imhaeuser v. Buerk, 101 U. S. 647, 660:

“Where the thing patented is an entirety, consisting of a single device or combination of old elements incapable of division or separate use, *the respondent cannot escape the charge of infringement by alleging or proving that a part of the entire invention is found in one prior patent, printed publication, or machine, and another part in another prior exhibit, and still another part in a third exhibit, and from the three or any greater number of such exhibits draw the conclusion that the patentee is not the original and first inventor of the patented improvement. Bates v. Coe*, 98 U. S. 31, 48.”

In *Dean Rubber Mfg. Co. et al. v. Killian*, 106 F. (2) 316, 318, the Circuit Court of Appeals, Eighth Circuit, stated:

“It seems to be well settled that the allowance and issuance of a patent by the patent office creates a presumption as to its validity (*Mumm v. Jacob E. Decker & Sons*, 301 U. S. 168, 57 S. Ct. 675, 81 L. Ed. 983; *Radio Corporation of America v. Radio Engineering Laboratories*, 293 U. S. 1, 55 S. Ct. 928, 79 L. Ed. 163), and there can be no question but what the presumption of validity is strengthened when the particular prior art relied upon by the defendant in an infringement suit was urged before, and considered by the Patent Office, and the claims of the application were allowed over that art. *Gairing Tool Co. v. Eclipse Interchangeable Counterbore Co.*, 6 Cir., 48 F. 2d 73.”

General Motors Corporation v. Provus, 100 F. 2d 562 (C. C. A. 7):

“Taking the record as a whole, there can be no doubt that the facts tend to indicate a preconceived and deliberate conduct on the part of the officers to *use the corporation merely to carry on the infringing and unfair practices* and that these practices constituted conduct so palpable and so alien to the purpose of a bona fide corporation that from this alone it might be concluded that the conduct was willful, deliberate and personal on the part of the officials. It is impossible for this court to believe appellant’s professions of innocence and inactivity. His actions during the life of the corporation conflict with his professions of innocence and inactivity, and the inference is compelling that appellant’s part in the illicit conduct of the corporate business is very suggestive of wrongful premeditation and design.

It is our opinion that the conclusion reached by the trial court was warranted and that the proven

facts and legitimate inferences clearly show the case falls within the exception to the general rule laid down in the Dangler Case.

The decree is affirmed."

In *Gere v. Canal Boiler Works*, 33 F. Supp. 558 (D. C., W. D. Wash., N. D.), the Court held:

"As to the individual liability of the defendants Youngquist and Rogers, the evidence seems to bring them under the principle that 'every voluntary perpetrator of a wrongful act of manufacture, use or sale of a patented article becomes ipso facto an infringer, and is legally responsible; and it therefore regards officers, directors, and agents employing or authorizing or assenting to the use of the patented invention as infringers, and personally responsible to the patentee.' *Cahoone Barnet Mfg. Co. v. Rubber & Celluloid Harness Co.*, C. C., 45 F. 582, 584; *National Car-Brake Shoe Co. v. Terre Haute Car & Mfg. Co.*, C. C., 19 F. 514; *National Cash-Register Co. v. Leland*, 1 Cir., 94 F. 502.

It is fundamental that *one cannot escape liability for tort in which he personally actually participated.* *Hitchcock v. American Plate Glass Co.*, 3 Cir., 259 F. 948."

Patents, 69 C. J. S., 918, Sec. 315, the text says:

"Moreover, in some cases an officer or agent may be personally liable with the corporation, as where he willfully, knowingly, and personally participates in the manufacture and sale of an infringing article, or uses the corporation as an instrument to carry out his own willful and deliberate infringements and for the purpose of avoiding personal liability. It has also been held that a director who, by vote or otherwise, specifically commands a subordinate to engage in the manufacture and sale of an infringing article, is individually liable, regardless of whether he knew that the article manufactured and sold infringed a patent."

**United States
Court of Appeals
For the Ninth Circuit**

HARRY X. BERGMAN, PERMA-LOX ALUMINUM SHINGLE CORPORATION and VICTOR H. LANGVILLE, doing business under the assumed name of LANGVILLE MANUFACTURING COMPANY,

Appellants,

vs.

ALUMINUM LOCK SHINGLE CORPORATION OF AMERICA,

Appellee.

Appellants' Reply Brief

**An Appeal from the United States District Court for
the District of Oregon**

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Plate III

United States
Court of Appeals
For the Ninth Circuit

HARRY X. BERGMAN, PERMA-LOX ALUMINUM SHINGLE CORPORATION and VICTOR H. LANGVILLE, doing business under the assumed name of LANGVILLE MANUFACTURING COMPANY,

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Appellants' Reply Brief

An Appeal from the United States District Court for the District of Oregon

Appellee's brief takes great liberties with the facts and record in this case. As the length of our reply is limited by Court Rules we can describe only a few representative mis-statements and inaccuracies contained therein.

The more glaring inaccuracies in appellee's brief are found in various sketches and photographs purporting to represent the disclosure and teaching of prior art patents. The nature and extent of the inaccurate statements indicate that they were made intentionally.

SKETCH "E" OF APPELLEE'S BRIEF MISREPRESENTS THE DISTINCTIONS BETWEEN THE BERGMAN AND KORTER SHINGLES.

Attention is first directed to Sketch "E" in which appellee purports to show the corner of the Bergman shingle which is identified by the legend "Material removed from the gutter to form the slot so that the slot in fact does extend along the gutter" whereas with reference to the Korter shingle at the bottom of the sketch a very small crevice is shown. In fact the corners of the Korter and Bergman shingles are substantially identical as will be observed with reference to photographs A and C of appellee's brief. If there is any difference, it is so slight as to be hardly noticeable.

APPELLEE MISREPRESENTS THE TEACHING OF MILLER PATENT 2,243,256

In an effort to sidestep the pertinency of the disclosure of the Miller patent appellee, in Diagram I directs attention to a very small detail, referred to by appellee as a "jog", at the opposite lower corner of Miller's shingle and then by a series of absolutely unwarranted exaggerations and modifications develops the jog into a structure shown in Sketch C which is entirely foreign and diametrically opposed to the teaching of Miller. In fact at least four discrepancies of major importance may be noted in appellee's Sketch G, which will be discussed separately.

Discrepancy No. 1

For the first discrepancy, attention is directed to

that portion of appellee's Sketch G marked "Vertical joint." At the top of the sketch the rolled edge portion is provided with a large radius curvature which agrees reasonably well with the radii shown for this part by Miller in his Figs. 7 and 8. However, the lower end of the rolled edge portion is pressed flat against the shingle body. This would make it virtually impossible to assemble the Miller shingle and is distinctly contrary, not only to the disclosure in the drawings of the Miller patent, but contrary to the specific description contained in the Miller specification. See page 2, column 2, lines 63-73.

Appellee completely ignored Miller's specification that "The interlocking flanges of the shingles *are not close fitting * * **" and intentionally distorted the structure into something entirely inoperative.

In Plate I, appended hereto, is a corrected view corresponding to Sketch G and from which it will be noted that the rolled edge portion of the vertical joint is provided with the same radius of curvature throughout its length, which is in accordance with the teaching of Miller.

Discrepancy No. 2

Next, comparing the interlocking portions 5 and 7 of the vertical joints with the similar portions 9 and 11 of the horizontal joints, as shown in Figs. 7, 8 and 9, 10, respectively, of the Miller patent, it will be observed that the radii of curvature of these interlock flanges are substantially the same. Appellee, however, in his Sketch G has seen fit to show the

lowermost horizontal joint flange 11, including the "bent-up jog," with a radius of curvature only a fraction of the radii of curvature of the remaining rolled-over flanges. This structure of the flange 11 is also clearly contrary to the teaching of Miller's drawings as well as his specification. Page 2, column 2, lines 63-73.

Discrepancy No. 3

The third serious discrepancy in Sketch G has to do with the representation of the "Horizontal Joint" which purports to portray the horizontal bends 12a and 13a of Miller. Referring to Figs. 3, 9 and 10 of Miller, it will be seen that these bends *do not contact* the body of the same shingle adjacent thereto. Appellee ignores the teaching of Miller and shows the bends 12a and 13a tightly contacting the adjacent shingle surfaces and then with no basis whatsoever adds the legend "Inside water could not pass the tight joint." This is entirely in error and contrary to the direct teaching of Miller.

The above three discrepancies, or some of them are carried forward, or repeated, in appellee's Sketch H, Photographs I, J, and Sketch K. The mere fact that appellee has seen fit to thus distort and misrepresent to the Court the positive teaching of the Miller patent carries a strong implication of acknowledgment of the anticipation by Miller of the substance of Korter's alleged invention.

Appellee at the bottom of page 32 specifically raises the question "But we wish pertinently to

inquire of appellants, and incidentally of Miller, as to what happened to the jog shown in Fig. 1 but absent in Fig. 2?" Miller, page 1, column 2, lines 23 to 29, clearly explains the presence of the jog as being due to the *cut-off ends of the flanges, which do not overlap*. The Plate I herein, provides the obvious explanation as to what happens to the jog when the flange portion 11 is rolled up. Attention is directed to the fact that it does not in any manner, shape or form seal up the horizontal joint and leaves the joint open at the end of the gutter so as to permit free drainage of any moisture which might collect in the gutter as specified by Miller.

Discrepancy No. 4

In the legend appearing at the bottom of Sketch G, and repeatedly elsewhere in the brief, appellee states "But Miller mentions no water in the horizontal joint." In this statement, appellee is also definitely in error, and attention is directed to the specification of Miller, page 1, column 1, lines 9 to 19 inclusive. "The interlocking connections are so formed as to permit the free drainage of rain water" *to prevent rusting of the nails*. Inasmuch as there are no nails connected with the vertical joints, this reference to drainage of water can relate only to the horizontal joints. Since the vertical and horizontal joints are of similar construction, the reference as to free drainage of water made on page 2, column 2, lines 59 to 65, is also believed applicable to both joints.

Discrepancy No. 5

A further misrepresentation is contained in the view appearing at the bottom of Sketch "H", opposite page 34, purporting to illustrate further a section of the Miller patent No. 2,243,256. Referring to the views of Figs. 9 and 10 of the Miller patent, see Plate II appended hereto, it will be observed that the nail 15, 16 and 17 definitely space the underneath surfaces of the upper shingles from the rolled-over edge portions extending therebeneath. The legend appearing at the bottom of Sketch "H" stating "Note There is no spacing for condensation water to travel" is absolutely without any foundation whatsoever in the disclosure of the Miller patent. The statement made in the top five lines of appellee's brief, page 35, reading as follows: "* * * wherea in Miller, the S lock as shown in Fig. 9 of the patent firmly contacts the inner surface of the shingle (shown at 9) and thus prevents any water from flowing down the interior of the shingle past the joint into the flange" is definitely not well founded and the appellee is challenged to point out wherein this statement finds any support whatsoever in either the drawings or specification of the Miller patent.

Discrepancy No. 6

Attention is directed to the fact that appellee *misquotes* the specification of the Miller patent in his statement appearing on page 35, lines 13 to 15, inclusive. This statement was apparently intended to have been taken from page 1, column 1, lines 10

to 13, inclusive, which are correctly quoted as follows:

“* * * The interlocking connection between the shingles are so formed as to *permit* the free drainage of rain water that may be driven into such connections.” (Italics added.)

Appellee in his brief has substituted the word “prevent” for the word “permit” in the above quotation.

MILLER PROVIDES FOR FREE DRAINAGE OF ANY WATER FROM THE GUTTER PROVIDED AT THE BOTTOM EDGE OF HIS SHINGLES.

It is regarded as immaterial as to whether the water which finds its way into the gutter 11 at the bottom of the Miller shingles is water of condensation or any other kind of water. So long as the water which finds its way into the gutter is drained therefrom at the opposite ends, that in itself is sufficient. Even Korter himself in his own patent treats drainage of rain water and condensation in the same sense. See page 1, column 1, lines 9 and 52. As previously pointed out, due to the spacing provided between the underneath surface of Miller’s shingles and the upper edge of the lower shingle interlocked therewith, water of condensation will find its way into the gutter and it will be drained freely therefrom.

Appellee’s argument, pages 35-39, relative to the small “cracks or crevices” which would tend to clog up except on a rainy day is predicated solely upon his own sketches and not upon a truthful recognition of the teachings of Miller which not only shows

drain openings as large or larger than those of Korter but his specification expressly stipulates "free drainage." What more could be asked for in the way of a prior art disclosure?

THE SHINGLE ILLUSTRATED IN THE PHOTOGRAPHS "I" AND "J" WAS OBVIOUSLY NOT MANUFACTURED PURSUANT TO THE TEACHING OF THE MILLER PATENT.

Discrepancy No. 7

In the argument beginning on page 41 of appellee's brief and referring to the photographs "I" and "J", appellee refers again to the "jog" integral with the lower or horizontal flange 11 and overlapping the adjacent end of the vertical flange. The notation is made on photograph "I" as follows: "Note that jog closes end opening of horizontal flange" while on photograph "J" the notation is made "Note how jog 3 of Miller Fig. 1 seals and prevents escape of water from end of horizontal flange." Fortunately, the formation of the flanges are clearly and definitely described in the specification of the Miller patent on page 1, column 2. In describing the lower flange the specification reads as follows, lines 23 to 29, inclusive:

"The lower margin of the blank is turned under the blank along the dotted line 10 forming an underturned flange 11 as indicated in Figs. 2 and 3. *This flange extends close to the flanges 7, but does not overlap or interfere with them because the ends of the flanges are cut off as shown at 3 in Fig 1.*" (Italics ours).

Discrepancy No. 8

Sketch "K" is also inaccurate in showing "no clearance" between the underneath surface of the upper shingle portion and the turned-over portion of the underneath shingle. Figs. 9 and 10 of the Miller patent, Plate II, as pointed out before, positively and definitely show the existence of a clearance or space between these portions of the shingle. It is of no concern that Miller makes no mention or suggestion that the nail heads space the shingles apart so long as these nail heads do in fact effect such spacing. What was said above under "Discrepancy No. 5" re Sketch H is also applicable here.

It is little less than amusing to read the last paragraph on page 43 of appellee's brief wherein appellee issues the challenge "We defy appellants to show or prove that Miller has any spacing whatsoever between the inner surface of his shingle and the upper surface of the bend of the joint of the lower adjacent shingle. The nail head situation advanced by them in their catalog of elements on page 47 is only one of imagination." The Court, and appellee, need merely refer to Figs. 9 and 10 (Plate II), of the drawings of the Miller patent which speak for themselves. It may be pointed out further that Miller shows at least *three* nails intermediate the ends of his shingles, whereas Korter has only two ribs. Appellee states "Their contention is distinctly disproved by the Sketch K as finding no basis in the Miller patent." Obviously, inasmuch as the Sketch K distorts and misrepresents the disclosure

of the Miller patent just as do the photographs "I" and "J", as pointed out above, the Sketch K proves nothing.

**STRUCTURE OF deSINCAY PATENT IS
MISCONSTRUED BY APPELLEE.**

Just as in the case of the Miller patent, we find a series of inaccurate statements are made in appellee's brief with respect to the disclosure of the deSincay patent.

The British patent to deSincay is not a diamond shaped tile as asserted by appellee, page 59, but is a *rectangular* metal shingle, adapted specifically for laying on diagonal lines. This distinction, however, is one of form rather than one of substance. Admittedly, the primary purpose of deSincay was to provide protection against rain water, just as it is the primary purpose of any shingle or roof, even Korter's.

A further erroneous statement is made by appellee, page 60, "Every alternate tile of deSincay is laid flat on the roof sheathing as seen in Fig. 4 while the adjacent tile is parallelly spaced from the roof as shown in Figure 5." The specification of deSincay stipulates that "Fig. 4 is a section of a metallic tile taken on the line A, B, Figures 1 and 3; and Fig. 5, a section line C, D, Fig. 3." In other words, referring to Fig. 3, it will be seen that Fig. 4 shows the upper end of the same tile shown at the top in Fig. 5.

In view of the fact that appellee requested appellants, page 60, to further clarify the disclosure of deSincay, we have added hereto Plate III showing in

Fig. 1 a sectional view through the entire assembly of three shingles shown by deSincay in Fig. 3, the section being along the line C-D, A-B. In this view, those portions shown in Fig. 4 and Fig. 5 are marked. It will be observed that *no* shingle, or tile, in deSincay is nailed flat to the roof, but *all* are spaced therefrom as shown in Plate III, in a manner similar to Miller's and defendants' shingles.

Appellee further charges, page 61, that appellants' assertion on page 48 of its brief that water of condensation is drained off through the gutter in deSincay was supplied "out of their own imagination." In reply to this charge, an enlarged section, Fig. 2, is provided on Plate III, illustrating the deSincay joint. From this sectional view, it will be noted that the hooks H, which are shown in Fig. 3 of the deSincay patent, for securing the shingles upon the roof, space the shingles apart in a manner similar to the nails 15, 16 and 17 of Miller, and the inverted ribs 12 of Korter. Thus, it is obvious, if any water of condensation should occur on the underneath surface of the deSincay shingle, it would inherently drain downwardly into the gutter through the space formed between the shingles by the hooks H, and drain from the gutters through the outlets K. The hooks H serve the same purpose as the nails 15, 16 and 17 of Miller for securing the shingles to the roof, and inasmuch as they "are made to hook onto the flanges E" they must inherently space the shingles apart by a distance corresponding at least

to the thickness of the metal from which the hooks H are formed.

DID KORTER MAKE THE SAME REPRESENTATIONS TO THE PATENT OFFICE REGARDING THE MILLER AND deSINCAY PATENTS AS ARE SET FORTH IN APPELLEE'S BRIEF?

On page 44 of appellee's brief it is stated that the Patent Office allowed the Korter claim over the Miller patent. It is noted that the counsel who represented Korter before the Patent Office also represents him in the present litigation and that this counsel presumptively prepared appellee's brief. The question therefore arises as to whether the same representations were made before the Patent Examiner during the course of the six personal interviews regarding the disclosure of the Miller and deSincay patents as are made in appellee's brief?

IT IS NOT CONTENDED THAT THE BIRCH PATENT FULLY ANTICIPATES KORTER.

The Birch et al patent is properly included in the record before this Court and may properly be considered as a reference in this case. The Birch patent included in appellants' answer, is a part of the record of the history of the Korter patent (DX 29), and is included in the Findings of Fact and Conclusions of Law and as set forth in the list appearing in the transcript, page 50.

The weakness of the entire argument made by the appellee against the sufficiency of the combination of Miller and Birch is summed up at the bottom of page 48 wherein appellee states that even

if Miller's corrugations were replaced by corrugations as shown by Birch they "would still not serve to space the inner surface of the shingle from the upper surface of the joint of the lower shingle because the corrugations would still be too short." Contrary to the assertions of appellee, the corrugations 22, and 22a, of Birch extend the full width of the shingle and *to the extreme lower edge thereof*. Therefore, of necessity, they space the upper shingle from the next lower one in precisely the same manner as do Korter's grooves 12.

MILLER, deSINCAY AND OTHERS SHOW OPEN END GUTTERS, SUBSTANTIALLY IDENTICAL WITH BERGMAN'S, PERMITTING FREE DRAINAGE FROM THE GUTTERS.

On page 15 of appellee's brief it is stated that "Nowhere in the prior art were defendants able to show any opening at the end of a gutter of a metal shingle which would take care of the moisture condensate, under any and all conditions, and convey that condensate through an ever open drain slot." Both Miller, and deSincay provide openings at the ends of the gutters of metal shingles which would drain any and all water therefrom under any and all conditions.

Appellee's brief, page 15, implies that the showings of the openings at the ends of the gutters of the Miller and deSincay patents are accidental but, obviously, this is not the case since such openings are clearly shown and, moreover, are specifically referred to in the specifications of both patents.

BERGMAN DOES NOT INCORPORATE A "DRAIN SLOT" AS THAT TERM WAS DEFINED DURING THE PROSECUTION OF THE KORTER APPLICATION AND AS THAT TERM IS RESTRICTED BY THE SPECIFIC DISCLOSURE OF THE PATENT IN SUIT.

In his brief appellee repeatedly (pages 13, 14, 15, 16, 17 and elsewhere) asserts that the Bergman shingle is provided with a "drain slot." As pointed out by appellants' brief beginning on page 30, Korter started out in his second application to define a "drain opening" at the ends of his gutters and when such claims were rejected on the basis of prior art patents to Miller, and deSincay, the usage of the term "drain slot" was adopted. Thereafter, it was argued that the claim was directed to a "cutaway drain slot disposed adjacent a corner thereof" and that none of the prior art shingles disclosed such a "drain slot." Moreover, plaintiff's expert Richardson on direct examination (Tr. 260) testified that the Miller patent (DX 31) did not show any drain slot. Defendants' contention is simply that if neither Miller nor deSincay shows any "drain slot" at the ends of their gutters, then Bergman has no drain slot for the reason that the drainage opening provided at the ends of Bergman's gutters are identical with the open ends of Miller and deSincay.

Quite obviously, the appellee is embarrassed on pages 18 and 19 by the references made by appellants to the Korter application files for determining the meaning of the term "drain slot," and seeks comfort in the quotation from Judge Hand, page 27.

Whatever may be Judge Hand's opinion, it is not shared by the Supreme Court or by this Court. See cases cited in *Lensch v. Metallizing Co.*, 39 F. Supp. 838, 845. Certainly, it is entirely proper for appellants to refer to the file wrapper of the Korter applications to show that the term "drain slot" as used in the claim of the patent was intended to refer to something other than is shown by Miller, or by de-Sincay, or by the defendant Bergman.

THIS IS A CLEAR CASE FOR THE APPLICATION OF THE DOCTRINE OF FILE WRAPPER ESTOPPEL AGAINST KORTER.

Notwithstanding the allegations made on page 21 of his brief, this is a clear case for application of the doctrine of file wrapper estoppel for the reason that the term "drain slot" does not read squarely upon the accused product. As pointed out above, the term "drain slot" as employed in the second application finds no corollary in the original case notwithstanding the recital made on page 22 of appellee's brief. Neither the sixth object nor page 4, line 18, of the earlier case describes any "drain slot." The sixth object is repeated as follows:

"The sixth object is to produce an interlocking shingle in which a natural drainage is provided for condensation, thereby protecting against drip from excess condensation or injury due to freezing of condensation within the interlocking joints."

Page 4, line 18, is reproduced as follows:

"The end 11 is provided with a slight amount

of drainage on both sides of its center 12 to prevent accumulation of moisture.”

This language and the disclosure made thereby is substantially identical with the description of the drainage of moisture from the Miller shingle. See Miller, page 1, column 1, lines 9 to 19, and page 2 column 2, lines 53 to 73, inclusive, which also describe the free drainage of water from the gutter at the lower edge of the shingle.

By quoting the decision of Judge Learned Hand at the bottom of pages 27 and 28, the appellee chides the appellants for inviting the Court's attention to the various arguments made by the plaintiff during the prosecution of his patent application and endeavors to persuade the Court to shut its eyes to the representations made therein. It is, of course readily understandable why the plaintiff should desire the records of the applications to be overlooked for the reason that they clearly and definitely drive home the fact that the position taken by the plaintiff during the prosecution of his applications before the United States Patent Office is entirely inconsistent with the position which he now urges.

As is pointed out in appellants' main brief, the Patent Office allowed the Korter claim over the prior art patents including Miller and Birch only on the basis of representations that Miller did not disclose any drain slot in the gutter, which representation, incidentally, was repeated by plaintiff's expert at the trial (Tr. 260). If neither Miller, de-Sincay or others do not disclose “drain slots” in

the gutters of their shingles, then it must inherently follow that the Korter patent must be limited and restricted in its interpretation to the cut-out drain slot or drain hole 21, which was urged by Korter's patent counsel as constituting invention over the prior art references.

Appellee (Brief p. 4) suggests that Korter first conceived and invented an aluminum shingle. Not so; in Paper No. 5, January 7, 1949, first abandoned application (Ex. DX-28) he stated, "there are many different kinds of aluminum shingles on the market." The Examiner, Paper No. 3, January 16, 1950, second application held that the substitution of aluminum for another metal was not invention. (Ex. DX-29). Substitution of one material for another is not invention. *Gardner v. Herz*, 118 U.S. 180.

Appellee's claim that Miller is indefinite and inaccurate will not bear examination. Its witness Richardson (Tr. 257, et. seq.) readily understood, as did the Examiner.

Nor is there the slightest merit in its complaint that appellants offered no oral testimony concerning every reference patent. They speak for themselves. They are simple in structure, and many courts resent and often decline to permit expert testimony regarding prior art patents.

That the prior art may not have specifically mentioned "condensation" is immaterial. Water is water whether it is rain water or condensation, and if it gets on the inner side of the shingle it should be drained. deSincay and Miller clearly show spacing

and means whereby water so occurring will drain and be wasted through a gutter to the surface of the next shingle below.

If Korter claims his invention (Appellee's brief, p. 15) covers any opening which drains water from a gutter, the patent is invalid for three reasons. First. Open ends draining water are as old as gutters themselves; Second, they are described specifically in deSincay and Miller and others; and Third Korter's patent would describe a desired result rather than the structure itself (*General Electric Co. v. Wabash Co.*, 304 U.S. 364, 370, 371).

Appellee insists upon discussing cited patents solely as to whether they anticipate Korter; and has meticulously avoided consideration of whether he shows any invention over the prior art taken singly or together. Birch is dismissed because "it has only one of Korter's ten claimed features," i.e., the downwardly projecting corrugations which act as spacers. Appellants cited Birch in connection with Miller since both expressly deal with interlocked metallic shingles.

"... It may be conceded for the purpose of argument that none of the prior art relied upon by the defendant discloses the precise thing which Burnett disclosed, nor is any used for the precise purpose, but it is apparent that it is all analogous art which shows familiarity of the public with all of the elements in this disclosure."

Ajax Hand Brake v. Superior Hand Brake Co.
132 F. (2d) 606, 610 (Sparks, J.)

Whether invention exists does not depend on the presence of every element or its equivalent in a single prior art patent.

“. . . Certainly it cannot be doubted that the entire prior art may be looked to, and the mere fact that some of the elements of a combination claim are found in one prior art patent and other elements in another does not render such art impotent as a guide for ascertaining novelty. There still remains the all-important question as to whether the combination of such elements amounts to a patentable invention or whether it might reasonably be expected of a mechanic or a person skilled in the art.”

Richard Screw Anchor Co. v. Umbach, 173 F. (2d) 521, 524 (7th Cir., 1949, Op. by Major, J.)

Arguendo, it may be conceded that “anything of a patentable subject matter found in the earlier application, Serial No. 776,332, is added to the improved drain slot disclosed in the later application (the patent in issue).”

The indisputable fact remains, however, that nothing in the first application, either singly or in combination, was found to be patentable. Every claim was rejected by the Examiner as lacking patentability; the Patent Office Board of Appeals sustained the Examiner. Korter appealed this decision to the District Court for the District of Columbia. Later, by stipulation, it was dismissed with prejudice as to the claims asserted. The application was abandoned, and was so marked by the Patent Office imprint on the file wrapper (DX-28).

Had Korter believed that both the Examiner and the Board of Appeals were wrong, "he should have pursued his remedy by appeal; (by appeal to the Courts) and where in order to get his patent he accepts one with a narrower claim, he is bound by it." *Smith v. Magic City Club*, 282 U.S. 784, 789.

That this is true as to Korter is apparent in File Wrapper, Paper No. 9, December 1, 1952 (Ex DX-29) where he says:

"Claim 11, as will be seen, *includes the additional structural limitations* of a cut-away drain slot disposed at the bottom of the shingle and *spaced* from the corner . . ."

Every claim in the second application was rejected until this definition was given for the term "drain slot."

Because of them no device infringes from which these structural limitations are absent. Bergman's shingle has no such drain slot, but uses the old open-ended gutter.

While it would seem clear beyond doubt that invention is not present in adding a second hole to drain water, where the original opening may be subject to clogging, the bare and inescapable fact is that Bergman does not use the alleged invention—hence no infringement.

With the exception of the added drain slot, the second application is identical in structure with the first, and that structure was held to be unpatentable, in which Korter acquiesced.

Respectfully submitted,

ELMER A. BUCKHORN

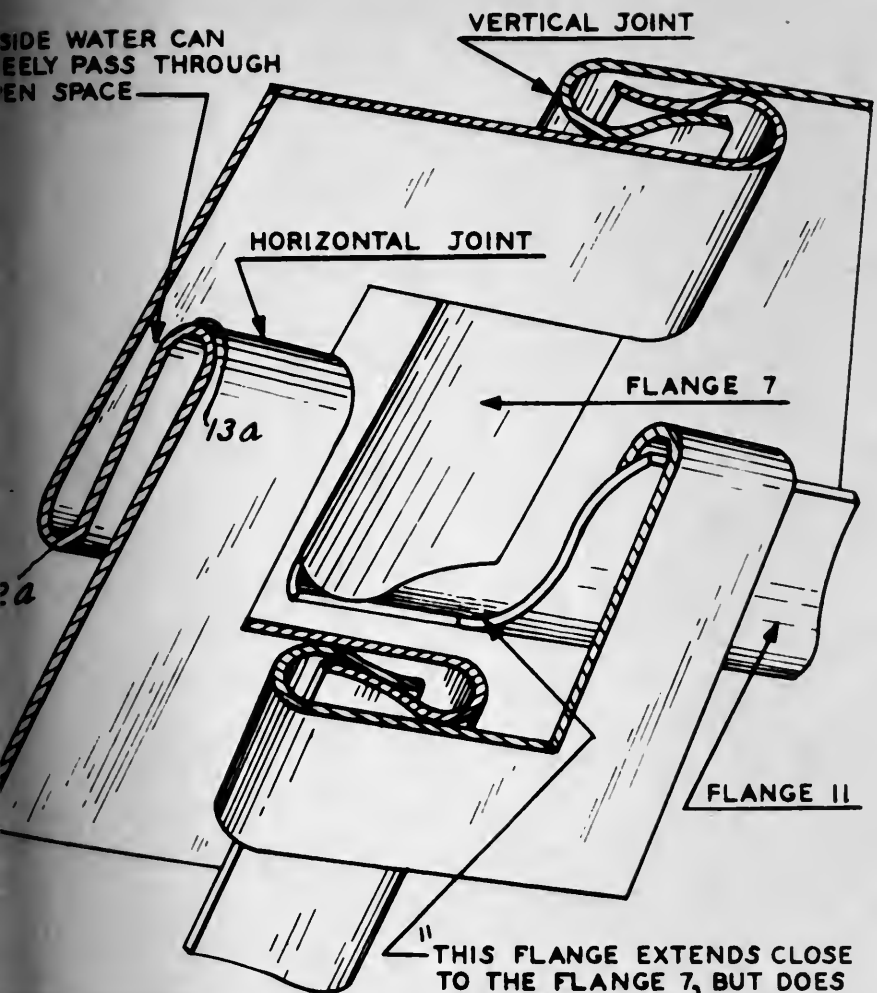
ROBERT F. MAGUIRE

J. PIERRE KOLISCH

Counsel for Appellants.



PLATE I
 MILLER 2,243,256
CORNER PORTION



SIDE WATER CAN
 EELY PASS THROUGH
 EN SPACE

INTERLOCKING CONNECTIONS
 ARE SO FORMED AS TO
 PERMIT FREE DRAINAGE."
 (PAGE 1, COL. 1, LINE 12)

THIS FLANGE EXTENDS CLOSE
 TO THE FLANGE 7, BUT DOES
 NOT OVERLAP OR INTERFERE
 WITH THEM BECAUSE THE ENDS
 OF THE FLANGES ARE CUT OFF
 AS SHOWN AT 3 IN FIG. 1."
 (PAGE 1, COL. 2, LINES 26-29)



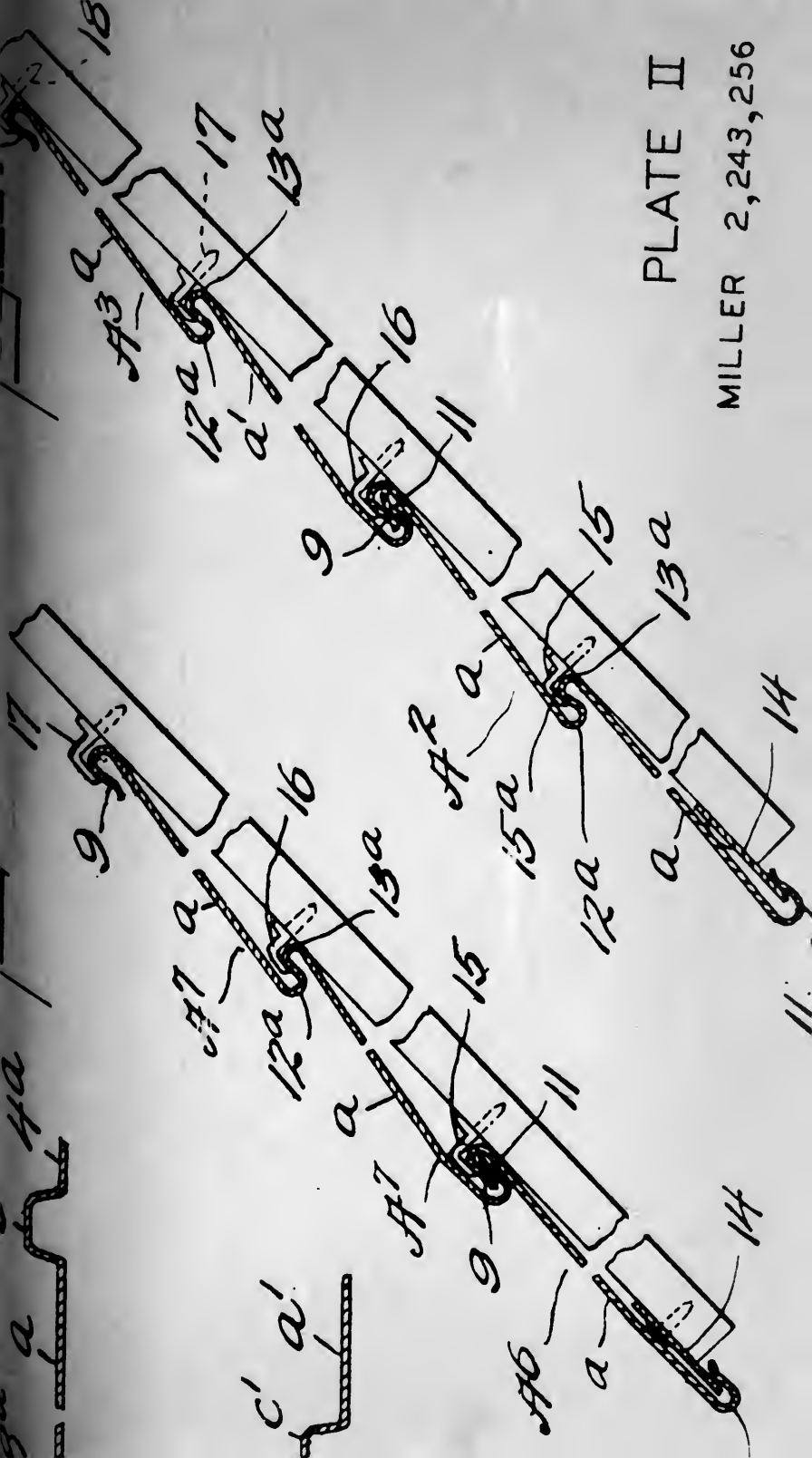


PLATE II

MILLER 2,243,256



FIG. 1

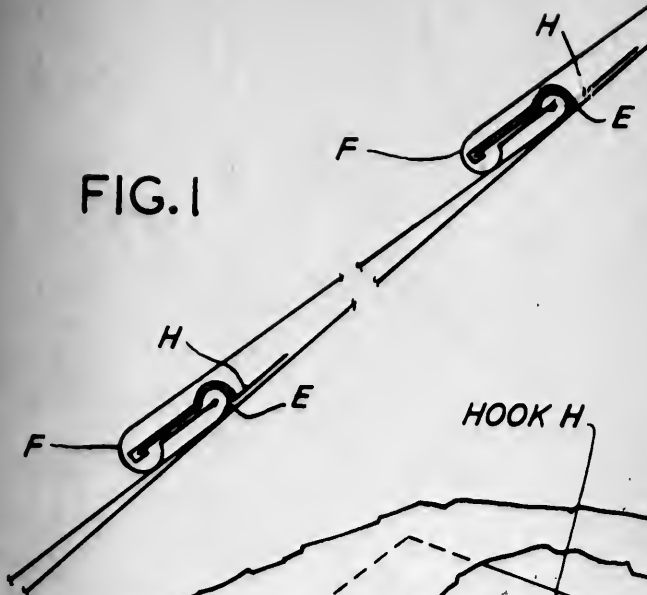
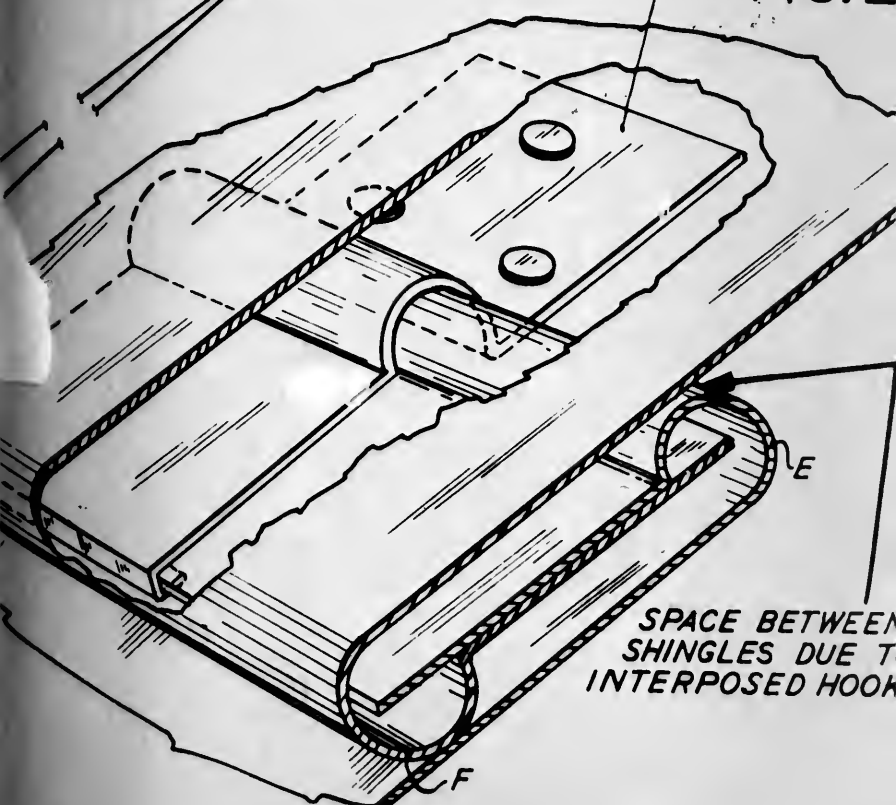
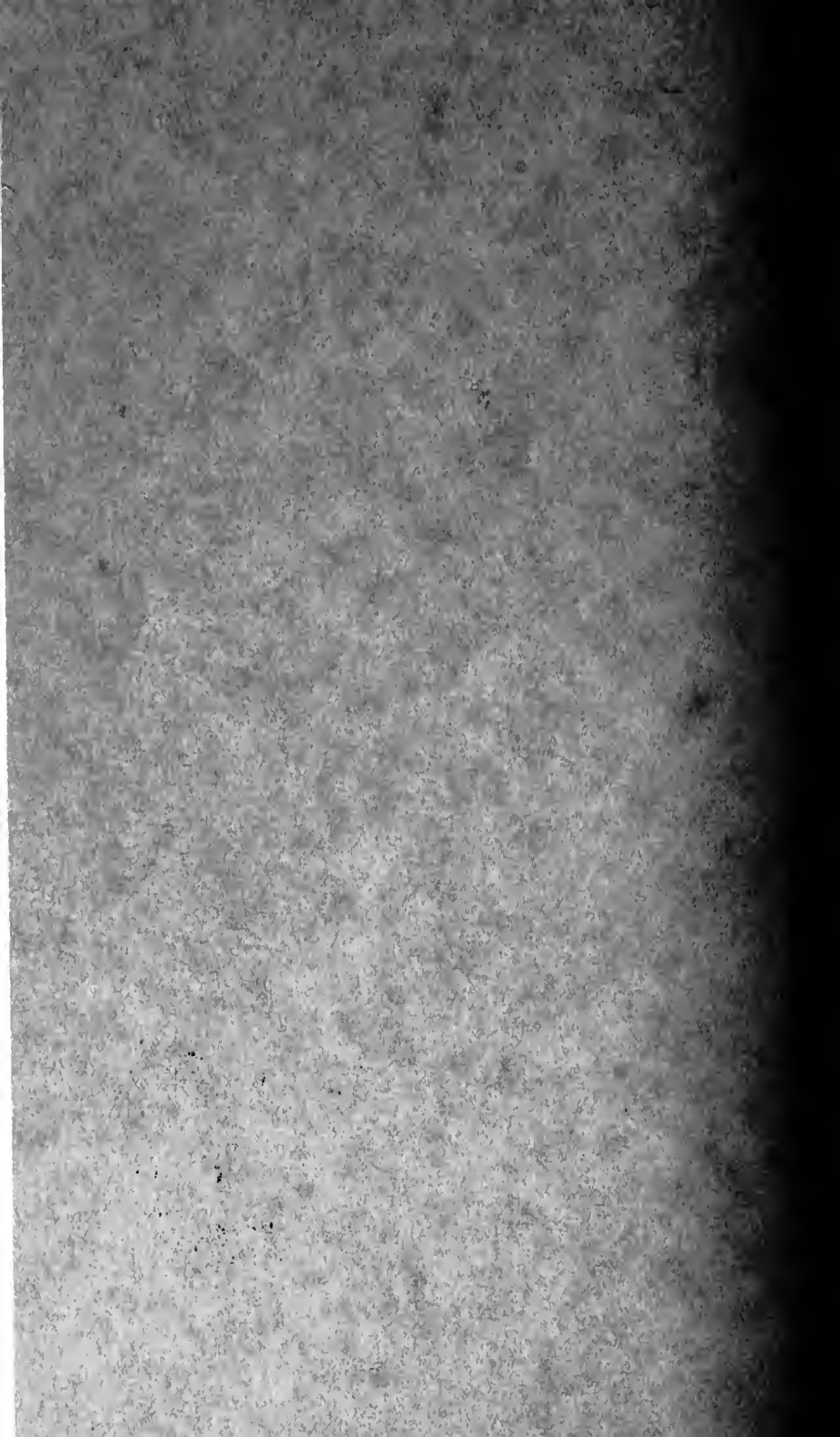


FIG. 2



SPACE BETWEEN SHINGLES DUE TO INTERPOSED HOOK





No. 14,968

United States
COURT OF APPEALS
for the Ninth Circuit

HARRY X. BERGMAN, PERMA-LOX ALUMINUM
SHINGLE CORPORATION and VICTOR H.
LANGVILLE, doing business under the assumed
name of Langville Manufacturing Company,

Appellants-Petitioners,

vs.

ALUMINUM LOCK SHINGLE CORPORATION OF
AMERICA,

Appellee-Respondent.

PETITION FOR REHEARING

FILED

NOV -8 1956

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United States
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AMERICA,

Appellee-Respondent.

PETITION FOR REHEARING

PETITION FOR REHEARING

Appellants, Harry X. Bergman, Perma-Lox Aluminum Shingle Corporation and Victor H. Langville, petition this honorable Court to reconsider its opinion dated October 12, 1956 dismissing the appeal herein, and to decide the case on its merits.

The appeal was dismissed on the grounds that the decree appealed from did not contain any "express determination that there is no just reason for delay" or any "express direction for the entry of judgment" as

required by Rule 54(b) of the Federal Rules of Civil Procedure.

The basis for this petition is that this Court has jurisdiction under 28 USCA § 1292 (1) and (4).

POINT I

The decree is appealable under 28 USCA § 1292(1) as an order granting an injunction. Paragraph VI of the decree (Tr. 55-56) grants an injunction against all of the defendants, Bergman, Perma-Lox and Langville.

§ 1292 provides in part:

“The courts of appeals shall have jurisdiction of appeals from:

“(1) Interlocutory orders of the district courts of the United States . . . granting . . . injunctions . . .”

As far as the defendants, Bergman and Perma-Lox are concerned, less than all the claims between them and plaintiff have been adjudicated and it would appear that Rule 54(b) governed and the decree was not appealable because it did not contain the certificate of the District Court. However, as previously stated, 28 USCA § 1292(1) expressly makes an interlocutory order, like the present one, granting an injunction appealable.

Rule 54(b)) deals solely with finality of judgments and does not apply to interlocutory orders made appealable by statute. See Moore's Federal Practice, second edition (1953) Vol. 6, pages 232-234, and cases there cited.

In *Hook and Hook v. Ackerman*, 3 Cir. 1954, 213 F. 2d 122, the Third Circuit expressly adopted the rule as stated by Professor Moore in his treatise (supra) and specifically declined to follow the ruling of the Seventh Circuit in *Packard Motor Car v. Gem Mfg. Co.*, 7 Cir. 1950, 187 F. 2d 65, cert. granted 341 U.S. 930, dismissed by stipulation, 342 U.S. 802, which appears to be the only circuit to have adopted a view contrary to the one being urged on this Court.

POINT II

As to the defendant Langville, the decree, in addition to being appealable under 28 USCA § 1292(1), is also appealable under § 1292(4) as a decree which is final except for accounting.

The Complaint (Tr. 3) charged defendants Bergman and Perma-Lox with both patent infringement and unfair competition. Defendant Langville was charged *only with patent infringement*. Defendants Bergman and Perma-Lox answered (Tr. 10) denying infringement and counterclaimed for unfair competition. Defendant Langville separately answered the complaint (Tr. 24) denying infringement and validity of the plaintiff's patent *but did not counterclaim*. Defendant Langville appealed from the decree entered herein by the District Court (Tr. 56, 57). Therefore, as far as Langville is concerned, that judgment was final except for accounting and satisfies 28 USCA § 1292(4) and should entitle him to an appeal on the merits.

We believe that all of the defendants are entitled to a decision on the merits from the decree appealed from; however, a decision on the merits as to any one defendant will dispose of the case for all defendants because the issues of validity and infringement are identical for all defendants.

It should also be noted that the pretrial order entered by the District Court stated (Tr. 46):

“This Order supersedes the pleadings as to the issues of fact and the issue of law between the parties segregated by this Order and will control the course of the trial except as provided in the Stipulation dated February 18, 1954, and shall not be amended except by Order of the Court to prevent manifest injustice.”

The only issues of fact and law raised by the pretrial order related to validity and infringement of plaintiff's patent. These issues were finally disposed of except for accounting in the decree appealed from.

The final paragraphs of the decree quoted by this Court in its opinion further emphasize that it was the intention of the District Court to enter a decree which was final and appealable on the questions of validity and infringement and reserved jurisdiction only on the unadjudicated issues (unfair competition).

In view of the state of the law as expressed by the courts of appeals which have considered this question defendants had to appeal from the decree entered herein since Rule 73(a) provides:

“When an appeal is permitted by law from a district court to a court of appeals the time within

which an appeal may be taken shall be 30 days from the entry of the judgment appealed from unless a shorter time is provided by law . . .”

We submit that an appeal from the decree of the District Court was permitted under 28 USCA § 1292 (1) and (4) and the appeal had to be taken within 30 days of the entry of judgment.

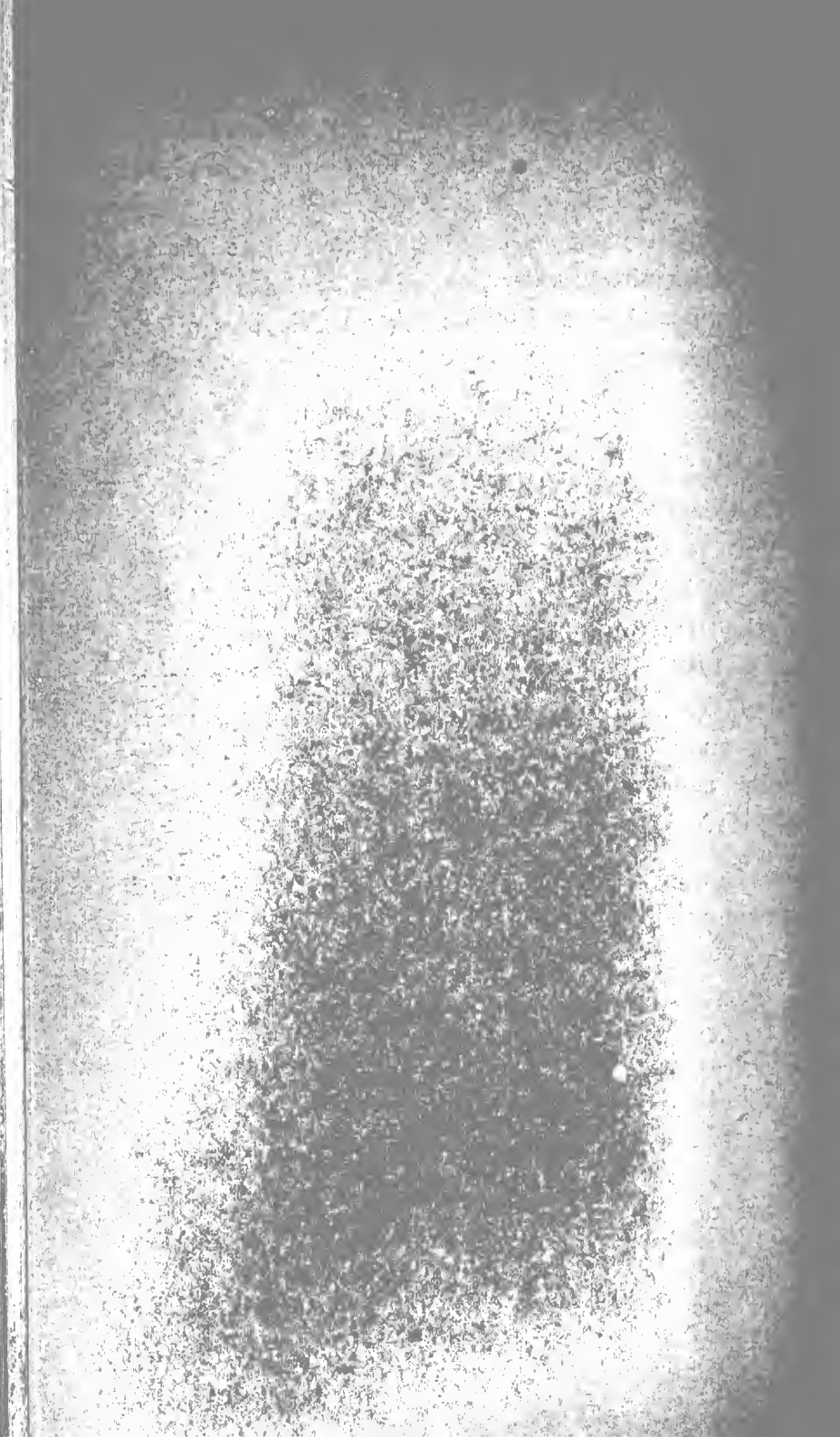
CONCLUSION

This Court has jurisdiction of the appeal despite the failure of the decree appealed from to contain the certificate of the District Court required by Rule 54(b) because the decree is made appealable by statute—28 USCA § 1292(1) and (4). As to all three defendants Bergman, Perma-Lox, and Langville, it is an order granting an injunction (§ 1292(1)). As to defendant Langville, the decree is final except for an accounting (§ 1292(4)).

The Court is requested to vacate the dismissal of the appeal and to decide the case on its merits.

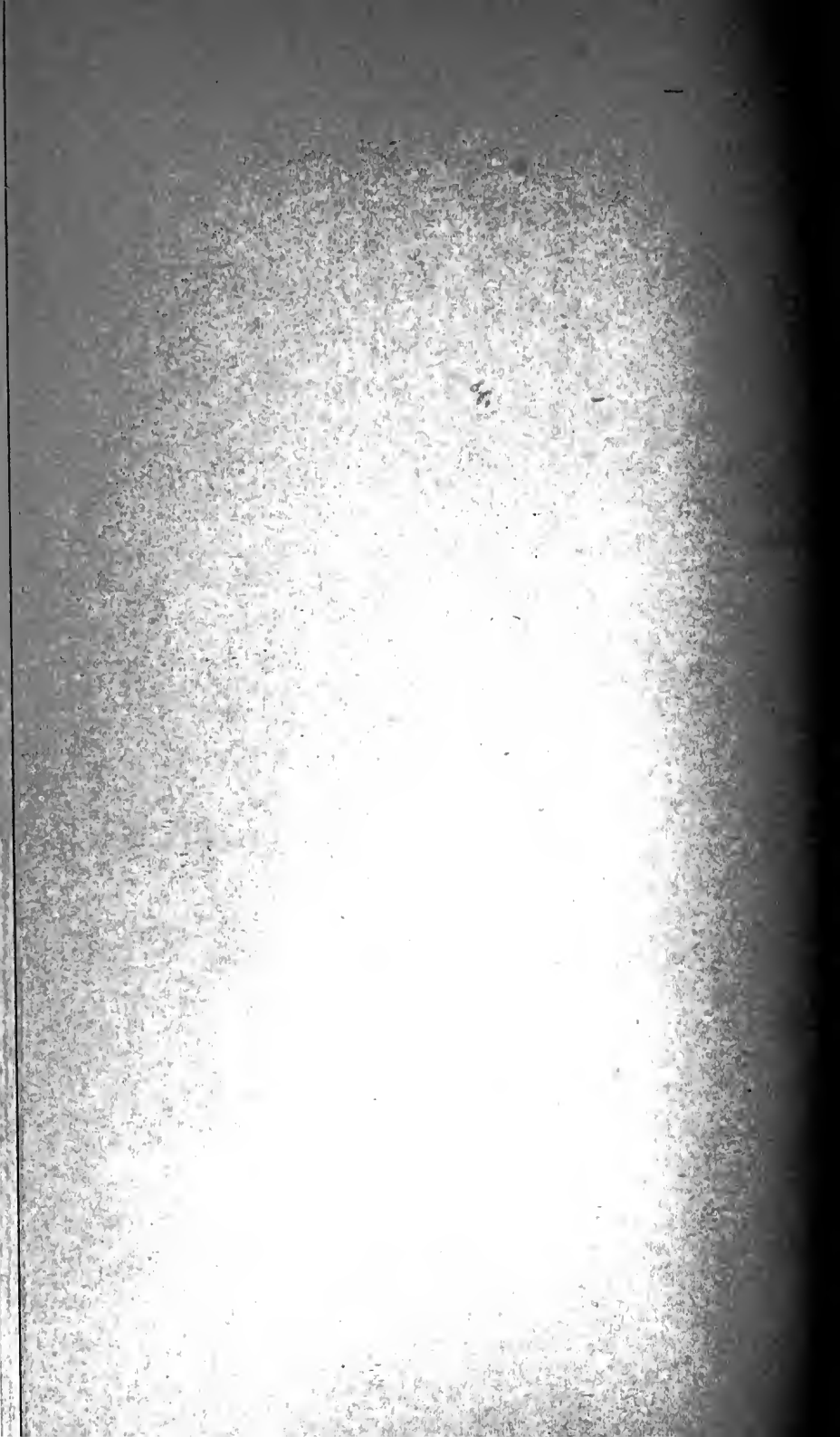
Respectfully submitted,

ROBERT F. MAGUIRE,
J. PIERRE KOLISCH,
Counsel for Petitioners.



I certify that in my judgment the foregoing petition for rehearing is well founded and has not been interposed for delay.

J. PIERRE KOLISCH,
Counsel for Petitioners.



United States
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HARRY X. BERGMAN, PERMA-LOX ALUMINUM SHINGLE CORPORATION and VICTOR H. LANGVILLE, doing business under the assumed name of Langville Manufacturing Company,

Appellants-Petitioners,

vs.

ALUMINUM LOCK SHINGLE CORPORATION OF AMERICA,

Appellee-Respondent.

OBJECTION TO PETITION FOR RE-HEARING

FILED

NOV 14 1956

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United States
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HARRY X. BERGMAN, PERMA-LOX ALUMINUM
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Appellee-Respondent.

OBJECTION TO PETITION FOR RE-HEARING

OBJECTION TO PETITION FOR RE-HEARING

The question presented by Appellants' petition for re-hearing involves the impact of **Rule 54(b) F. R. C. P.** on Sections 1291 and 1292, Title 28 U.S.C.A.

I

The decree was not appealable under **Section 1292 (1), Title 28 U.S.C.A.** Subdivision 1 of that section

relates to interlocutory "orders" granting or refusing injunctions as distinguished from interlocutory "decrees" and "judgments". The interlocutory "orders" in subdivision 1 are the orders granting, refusing or modifying preliminary injunctions and do not relate to "decrees" or "judgments" granting or denying injunctions.

In the several subdivisions, the terms "orders", "decrees", "judgments" are not used interchangeable or cumulatively. They are used specifically in relation to each type of determination.

The revisers' notice to **Section 1292** says:

"Words in said section 227 'or decree,' after 'interlocutory order,' were deleted in view of Rule 65 of the Federal Rules of Civil Procedure, using only the word 'order.'" (p. 376).

Rule 65, referred to in the note, governs "preliminary injunctions" only.

The appeal in this case was not from an interlocutory "order" granting a temporary injunction. The appeal was taken from a "judgment" which must be final even though it determines one or more but less than all of the multiple claims.

Sears Roebuck & Co. v. Mackey, 351 U.S. 427, 76 S.Ct. 895, decided June 11, 1956.

and companion case decided at the same time

Cold Metal Products Co. v. U. S. Engineering and Foundry Co., 76 S. Ct. 904.

This Court did not overlook the provisions of subdivision 4 of Section 1292. The Court dealt with

the matter specifically and held that it was not applicable. The petition for re-hearing does not demonstrate any error or omission in that determination.

II

It is conceded that as to defendants Bergman and Perma-Lox, the judgment adjudicated "less than all the claims between plaintiff and these defendants" (p. 2).

It is contended that as to defendant Langville, the judgment determined all of the claims except accounting and on that theory, it is argued that subdivision 4 is applicable as to him.

The record does not sustain this contention. The complaint alleged that defendant Langville manufactured the infringing shingle **for defendants Perma-Lox and Bergman** (Tr. 4) (subpar. C). The findings recite that Langville "manufactures **for the account** of Bergman and Perma-Lox" aluminum shingles which infringe, etc. (Tr. 47). The complaint prayed for relief against all defendants, including Langville separately and "collectively" (Tr. 9) with respect to the issues of validity of the patent, infringement, injunction, accounting, damages and attorneys' fees (Tr. 9). The judgment adjudicated that all defendants, including Langville, "collectively" infringed the patent; that the accounting be had from all of the defendants "collectively" and that all defendants were enjoined from making and selling the infringing shingle (Tr. 55-56).

There was no separate judgment against defendant Langville.

The appeal was taken by all of the defendants, including Langville, **jointly** by one notice of appeal (Tr. 56).

The issue of damages, accounting and attorneys' fees are still open as against defendant Langville. These issues, in conjunction with the issues of validity and infringement, created "multiple claims" within the meaning of Section 54(b).

The decree cannot be severed and converted into a separate decree as against defendant Langville to bring him within the purview of **paragraph 4 of Section 1292**.

III

There is no diversity of opinion with respect to the specific question involved in this case.

We have here a case involving "multiple claims" in which a judgment was rendered adjudicating less than all of the claims and specifically reserving for determination all the remaining claims presented by the pleadings.

At the present state of the record, the question is not so much one of finality as it is whether the question of finality can be tendered to the Court of Appeals for determination in the absence of "an express determination (in the judgment) that there is "no reason for delay and upon an express direction for the entry of the judgment" as required

by **Rule 54(b) F. R. C. P.** in a case involving multiple claims in which less than all of the claims have been adjudicated. The Supreme Court has very recently decided that it cannot be done.

In the **Sears Roebuck and the Cold Metals Products** cases, *supra*, the Supreme Court dealt with the impact of **Section 54(b) F. R. C. P.** on **Sections 1291 and 1292, Title 28 U.S.C.A.** and held that in a multiple claims case where less than all of the claims have been adjudicated, there can be no appeal in any event unless the District Court makes the "express determination" required by **Section 54(b)**. Jurisdiction of the Court of Appeals is precluded unless that express determination is made by the District Court.

When this "express determination" is made, the question of finality is not foreclosed. It may then be determined by the Court of Appeals, either of its own motion or on motion of the appellee in accordance with the well established rules governing finality which the Court held remained unchanged.

The petition for re-hearing asserts that the appeal had to be taken within the thirty day period as required by **Rule 73(a)**. The Supreme Court held that **Rule 54(b)** in its present form, was designed to avoid any uncertainty as to when the appeal should be taken. The Court said:

"A party adversely affected by a final decision thus knows that his time for appeal will **not** run against him until this certification has been made." (Emphasis by the Court).

- (a) The determination of the claim adjudicated must be **final**;
- (b) The judgment or decree must contain the "express determination" described in **Rule 54(b)**; and
- (c) The Court of Appeals must be satisfied that there has been no abuse of discretion.

The petition for re-hearing should be denied.

Respectfully submitted,

S. J. BISCHOFF,
Counsel for Appellee.

No. 14,972

United States Court of Appeals
For the Ninth Circuit

JAMES F. CRAFTS,

vs.

FEDERAL TRADE COMMISSION,

Appellant,

Appellee.

APPELLANT'S OPENING BRIEF.

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FILED

MAR 15 1956

PAUL P. O'BRIEN, CLERK



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No. 14,972

**United States Court of Appeals
For the Ninth Circuit**

JAMES F. CRAFTS,	} <i>Appellant,</i>
VS.	
FEDERAL TRADE COMMISSION,	

APPELLANT'S OPENING BRIEF.

JURISDICTION.

This is an appeal from an order enforcing a *subpena duces tecum* issued by the Federal Trade Commission in an adjudicative or quasi-judicial proceeding against Fireman's Fund Indemnity Company. The subpoena was directed to appellant, James F. Crafts, who is President of the Company.

Jurisdiction of the District Court is set forth in Section 9 of the Federal Trade Commission Act, 38 Stat. 722, 15 U. S. C. 49, and in Section 6(c) of the Administrative Procedure Act, 60 Stat. 240, 5 U. S. C. 1005(c).

The order enforcing the subpoena is a final decision of the District Court and the appellate jurisdiction is set forth in the Judicial Code, 62 Stat. 929, 28 U. S. C. 1291.

STATEMENT OF THE CASE.

The purpose of this proceeding is to secure a judicial interpretation of Public Law 15, 79th Congress (59 Stat. 31, 15 U. S. C. 1011-1015) and thereby determine what authority or jurisdiction, if any, the Federal Trade Commission has over advertising of accident and health insurance policies. Tr. 38. The pertinent portion of Public Law 15 provides that the Federal Trade Commission may regulate the business of insurance only "to the extent that such business is not regulated by State law". Tr. 35.

This case results from an adjudicative or quasi-judicial proceeding in which the Federal Trade Commission seeks to regulate advertising of accident and health insurance policies by Fireman's Fund Indemnity Company. Tr. 8-20. The Company denies that any advertising issued by it was or could be misleading or deceptive. Tr. 56, 59 and 60. The Company further denies that the Federal Trade Commission has any authority or jurisdiction to regulate any of the Company's advertising and claims that all of its advertising is regulated by State law. Tr. 24 and 34-38. The Company is a California corporation licensed by and doing business in each of the forty-eight States and the District of Columbia. Tr. 8, 36-37 and 53. The Company contends that its advertising is regulated not only by the State law of California but also by the local laws of the other forty-seven States and of the District of Columbia. Tr. 36-37.

This appeal does not involve the merits of the administrative proceeding. But this court, in order to determine if the evidence sought by the subpoena is competent or relevant to any lawful purpose of the Commission (*Pen-*

field Co. of California v. Securities and Exchange Commission, 9 Cir., 143 F. 2d 746, 751, cert. den. 323 U. S. 768), must consider the extent (if any) that advertising by Fireman's Fund "is not regulated by State law". As Senator McCarran, author of Public Law 15, said (94 Congressional Record No. 11, p. A 3214) the inquiry should be "Is this practice regulated by state law? Not, is it effectively regulated or is it wisely regulated; but simply is it regulated?". Tr. 35. If the practice, to wit, advertising of accident and health insurance policies by Fireman's Fund is regulated by State law everywhere, then, in our opinion, the Federal Trade Commission as a matter of law does not have any authority or jurisdiction to regulate such advertising anywhere and the evidence cannot be competent or relevant "to any lawful purpose of the Commission" as required by the *Penfield* case.

The Federal Trade Commission does not claim any power to regulate advertising by Fireman's Fund in California but does claim jurisdiction to regulate such advertising in all other states and in the District of Columbia. Tr. 36, 39 and 42. This claim is made despite the local laws, most of which are "model acts" designed for the very purpose of preserving state regulation as opposed to Federal Trade Commission regulation. Tr. 42. This claim of jurisdiction over Fireman's Fund in all states except California is based, as we understand it, on the theory that the Federal Trade Commission can regulate advertising in any state other than the domiciliary state even though the other state has full regulation. Tr. 89. We believe this is contrary both to the letter and to the spirit of Public Law 15.

It must be remembered that Public Law 15 was passed almost immediately after the Supreme Court in *U. S. v. South-Eastern Underwriters*, 322 U. S. 533 (1944), held that insurance was commerce, contrary to the 1868 decision in *Paul v. Virginia*, 8 Wall. 168. Tr. 34-35 and 65-66. The Company believes that Congress in passing Public Law 15 intended to restore to the states full power to regulate the business of insurance and to divest the Federal Trade Commission of power which otherwise might come from the *South-Eastern Underwriters* decision. Therefore, the Company has claimed from the beginning (Tr. 37) and still claims (Tr. 24-25) that the Federal Trade Commission has no jurisdiction in the pending proceeding because of regulation by state law. When the subpena was served on Mr. Crafts the Company moved to quash or in the alternative to limit it to evidence regarding activities in those states (if any) which had no regulatory statute. Tr. 27. The Hearing Examiner denied the motion to quash and denied the alternative motion to limit except as to California. The Company appealed to the Commission which affirmed the Hearing Examiner. Tr. 27.

The subpena was for a hearing in San Francisco on October 17, 1955. Tr. 20. Mr. Crafts was the first witness called on behalf of the Commission. Tr. 33. He identified himself as the President of the Company and then refused to give further testimony or to produce any documents on the ground that the Federal Trade Commission had no jurisdiction over Fireman's Fund because of regulation by State law, but offered to do so if and when the proper courts finally determine that the Commission has jurisdic-

tion over the advertising of accident and health insurance policies issued by the Company. Tr. 33-38. Counsel for the Company pointed out that the only method known to him of securing a determination of this question at that stage of the proceeding would be in an action by the Federal Trade Commission requesting the District Court to enforce the subpoena. Tr. 38. The administrative proceeding was then continued to permit the Commission to file such an action. Tr. 44-45. It was stipulated prior to the continuation that the outcome of this action would apply equally to other Company officials. Tr. 43-44.

The action was filed the next day, October 18, 1955, in the District Court of the United States for the Northern District of California, Southern Division. Tr. 3-7. The answer alleging no jurisdiction was filed on October 20 (Tr. 24-25) and the case was immediately placed on the trial calendar by stipulation. It was assigned to the Honorable Oliver D. Hamlin for trial, but was continued by him until October 21 because he was concluding another matter.

At the outset of the trial on October 21 (Tr. 51, 62-63) this case became not only a test of Public Law 15 but also a test of Section 6(c) of the Administrative Procedure Act (60 Stat. 240, 5 U. S. C. 1005(c)), which provides that upon contest the court shall sustain any such subpoena "to the extent that it is found to be in accordance with law". The District Court interpreted this to mean that a subpoena must be enforced merely because it was issued with due formality and refused to consider what jurisdiction (if any) the Federal Trade Commission had over advertising by Fireman's Fund of accident and

health insurance policies and refused to consider if the evidence sought by the subpoena was or could be material or relevant to any lawful proceeding by the Commission. Tr. 70, 77, 82-83. The Court thereupon issued the order enforcing the subpoena but the order was stayed without objection pending final determination on appeal. Tr. 96-97.

SPECIFICATION OF ERROR.

We believe the action of the District Court in interpreting Section 6(c) as precluding any consideration into the lawfulness of the administrative proceeding or into the jurisdiction (if any) of the Commission to regulate a particular activity is contrary to law and might violate the Fourth Amendment. Our belief finds support in the legislative history of the Administrative Procedure Act and in the judicial decisions which have considered administrative subpoenas.

Therefore, as we said before, this appeal is a test not only of Public Law 15, but also of Section 6(c) of the Administrative Procedure Act.

ARGUMENT.

A DISTRICT COURT SHOULD CONSIDER IF THE ADMINISTRATIVE PROCEEDING IS LAWFUL BEFORE ENFORCING A SUBPENA ISSUED IN SUCH PROCEEDING.

Section 6(c) of Administrative Procedure Act provides:

“(c) Agency subpoenas authorized by law shall be issued to any party upon request and, as may be required by rules of procedure, upon a statement or

showing of general relevance and reasonable scope of the evidence sought. Upon contest the court shall sustain any such subpoena or similar process or demand to the extent that it is found to be in accordance with law and, in any proceeding for enforcement, shall issue an order requiring the appearance of the witness or the production of the evidence or data within a reasonable time under penalty of punishment for contempt in case of contumacious failure to comply." 60 Stat. 240, 5 U. S. C. 1005(c).

The District Court interpreted the phrase "in accordance with law" as precluding any consideration of the lawfulness of the administrative proceeding; in other words, as precluding consideration of the defense that the Federal Trade Commission has no jurisdiction as a matter of law. The District Court held that the subpoena must be enforced merely because it was issued and served with due formality. This, in our opinion, is contrary to law.

The phrase "in accordance with law" is not defined in the Administrative Procedure Act. However, its meaning seems clear when we consider the law as it stood when the Act was passed and also consider the legislative history as set forth in Senate Document No. 248, 79th Congress, 2d Session. Beginning with the Interstate Commerce Commission in 1887, 49 U. S. C. 1, et seq., it has been a conventional feature of congressional regulatory legislation to give administrative agencies authority to issue subpoenas for relevant information. However, Congress has never attempted to confer upon an administrative agency the power to compel obedience to such a subpoena; instead, Congress has consistently required the

administrative agencies to resort to the courts for enforcement. The judicial function thus vested in the courts is not limited, in our opinion, merely to a determination that the subpoena was signed by the proper officer or otherwise issued and served with due formality.

The Supreme Court Decisions.

The Supreme Court has been consistent in holding that "an appropriate defence" may be made to an action to enforce a subpoena. *Myers v. Bethlehem Shipbuilding Corporation*, 303 U. S. 41, 49 (1938). The fact that the agency is acting beyond its authority as a matter of law would seem to be one of the most appropriate defenses to such an action.

In *Jones v. Securities and Exchange Commission*, 298 U. S. 1 (1935), the Supreme Court reversed a District Court order enforcing a subpoena for the reason that the Commission lacked jurisdiction over the matters involved. The jurisdictional question hinged solely on a point of law, the issue being whether a registration statement filed by Mr. Jones might be withdrawn without first obtaining the Commission's consent. The Court held that the registration statement could be withdrawn and that by its withdrawal the Commission had lost jurisdiction.

The Court on page 25 stated its position very concisely:

"The proceeding for a stop order having thus disappeared, manifestly it cannot serve as the basis for the order of the district court compelling petitioner to appear, give testimony, and produce his private books and papers for inspection by the commission. But the commission contends that the order may rest upon the general power to conduct investigations which it says is conferred by §19(b). The difficulty

with that is that the investigation was undertaken for the declared and sole purpose of determining whether a stop order should issue.”

and on page 26 the Court said:

“The citizen, when interrogated about his private affairs, has a right before answering to know why the inquiry is made; and if the purpose disclosed is not a legitimate one, he may not be compelled to answer.”

Endicott-Johnson Corp. v. Perkins, 317 U. S. 501 (1943), was mentioned by the Court below as precluding judicial consideration of jurisdiction. Tr. 68 and 77. This case did enforce an administrative subpoena in a proceeding where “coverage” under the statute depended upon evidence as to whether certain employees worked on government contracts or private contracts. This was the very evidence sought by the subpoena. The Court said that in such a case the District Court was not authorized to decide the question of “coverage” itself. However, the Supreme Court recognized a distinction, where, as a matter of law, the agency might be acting unlawfully or beyond its jurisdiction and said at page 509:

“The evidence sought by the subpoena was not plainly incompetent or irrelevant to any lawful purpose of the secretary in the discharge of her duties under the Act, and it was the duty of the District Court to order its production for the secretary’s consideration.”

In the *Endicott-Johnson* case as Mr. Justice Murphy points out in his dissent at page 512:

“The Government concedes that the District Courts are more than mere rubber stamps of agencies in

enforcing administrative subpoenas and lists as examples of appropriate defenses * * * or that it is plain on the pleadings that the evidence sought is not germane to any lawful subject of inquiry.”

Oklahoma Press Publishing Co. v. Walling, 327 U. S. 185 (1946), is sometimes cited as precluding a District Court from considering “coverage” on an application to support a subpoena. Like the *Endicott-Johnson* case it involved a situation where coverage depended upon the evidence sought by the subpoena. It did not involve lack of authority as a matter of law. The Supreme Court again recognized the distinction. It pointed out at p. 208 that the inquiry must be one “the demanding agency is authorized by law to make”. The Court pointed out further at p. 216 that Mr. Walling, the administrator, must not act “in excess of his statutory authority”.

The *Oklahoma Press* case was decided in February 1946. The Administrative Procedure Act was approved on June 11, 1946. It is fair to assume that Congress, in using the phrase “in accordance with law”, did not intend to broaden agency authority or to place additional limitations upon district courts called upon to enforce administrative subpoenas. In fact, the legislative history which we shall discuss later is clearly to the contrary and can be construed as directing the courts specifically to give even greater consideration to the jurisdiction of an agency before enforcing a subpoena. The later Supreme Court cases do not indicate any relaxation of prior requirements.

Penfield Co. v. Securities and Exchange Commission, 330 U.S. 585 (1947), is the aftermath of a subpoena. It involved contempt for failure to obey the order enforcing

the subpoena. The question before the Supreme Court was whether the contempt was civil or criminal. The Court held that the contempt was civil and in doing so said, pages 591-592:

“As we have already noted, the Act requires the production of documents demanded pursuant to lawful orders of the Commission and lends judicial aid to obtain them. There is no basis in the record before us for saying that the demand of the Commission exceeded lawful limits.”

The dissenting opinion by Mr. Justice Frankfurter with whom Mr. Justice Jackson concurred was more explicit on this point. It says at pages 603-604:

“Beginning with the Interstate Commerce Act in 1887, it became a conventional feature of Congressional regulatory legislation to give administrative agencies authority to issue subpoenas for relevant information. Congress has never attempted, however, to confer upon an administrative agency itself the power to compel obedience to such a subpoena. It is beside the point to consider whether Congress was deterred by constitutional difficulties. That Congress should so consistently have withheld powers of testimonial compulsion from administrative agencies discloses a policy that speaks with impressive significance.

“Instead of authorizing agencies to enforce their subpoenas, Congress has required them to resort to the courts for enforcement. In the discharge of that duty courts act as courts and not as administrative adjuncts. The power of Congress to impose on courts the duty of enforcing obedience to an administrative subpoena was sustained precisely because courts were not to be automata carrying out the wishes of the

administrative. They were discharging judicial power with all the implications of the judicial function in our constitutional scheme (citing authority). Accordingly, an order directing obedience to a subpoena by the Securities and Exchange Commission like a subpoena of any other federal agency, does not issue as a matter of course. An administrative subpoena may be contested on the ground . . . that the inquiry is outside the scope of the authority delegated to the agency; . . .”

Shapiro v. United States, 335 U.S. 1 (1948), involved a conviction in a criminal case after a claim of immunity based upon the production of evidence pursuant to an administrative subpoena. The Court in sustaining the conviction said at page 30:

“It is clear that if the Administrator sought to obtain data irrelevant to the effective administration of the statute and if his right of access was challenged on the ground that the evidence sought was ‘plainly incompetent or irrelevant to any lawful purpose of the Administrator’, that objection could sustain a refusal by the district court to issue a subpoena or other writ to compel inspection.”

The latest case on this subject was decided less than two months ago. It is *U.S. v. Minker*, U.S., 100 L. ed. (Advance p. 191), and involved conflicting decisions in the second and third circuits in actions to enforce subpoenas issued under Section 235(a) of the Immigration and Nationality Act of 1952, 66 Stat. 163, 198. The question presented was purely a matter of law. The section authorizes subpoenas requiring the attendance and testimony of witnesses before immigration officers and special

inquiry officers and the production of books, papers and documents relating to the privilege of any person to enter, re-enter, reside in or pass through the United States, or concerning any matter which is material and relevant to the enforcement of the Act. The section further provides for enforcement by any United States District Court. Each of the subpoenas in question was for the purpose of securing evidence from a citizen who was himself the subject of an investigation directed toward his denaturalization. The Supreme Court (without finding it necessary to refer to Section 6(c) of the Administrative Procedure Act) held that Congress had not granted authority to subpoena the citizen who is himself the subject of the denaturalization investigation and, therefore, quashed the subpoenas. The Supreme Court considered the question purely as a matter of statutory interpretation.

The same situation is presented by the present case. Fireman's Fund contends that as a matter of statutory interpretation its advertising of accident and health insurance is regulated by state law in all forty-eight states and the District of Columbia, and therefore the Federal Trade Commission has no jurisdiction to regulate such advertising anywhere. The Supreme Court in *U.S. v. Minker* reversed the court of appeals for the second circuit (219 F.2d 137) which had reversed the district court where the case was known as *Application of Barnes*, 116 F.Supp. 464 (N.D. N.Y., 1953). The district court decision, thus affirmed by the Supreme Court, specifically pointed out that a subpoena should be quashed if the agency is acting beyond the authority granted by Congress. The district court said at page 467:

“* * * The importance to the administration and enforcement of the Act is evident because it would ease the burden of investigations in such situations as here, but such reason of expediency cannot prevail if the subpoena power exercised is in excess of the statutory grant. The authority of Congress to delegate the subpoena power to administrative agencies is clearly established, even to the extent that it may delegate effective power to investigate violations of its own laws. However, the subpoena power must remain within the bounds of the legislative grant, not overreach the authority granted by Congress, and in investigatory matters should be conferred in express and explicit terms for that purpose. *Harriman v. Interstate Commerce Comm.*, 211 U.S. 407, 29 S.Ct. 115, 53 L.Ed. 253; *Oklahoma Press Publishing Co. v. Walling*, 327 U.S. 186, 201, 217, 66 S.Ct. 494, 90 L.Ed. 614; *National Labor Relations Board v. Anchor Rome Mills, Inc.*, 5 Cir., 197 F.2d 447, 449. In my own judgment, subpoenas should not issue upon hit or miss legal grounds.”

In each of these cases the Supreme Court considered whether the administrative inquiry was lawful or unlawful and in two of these cases, *Jones v. Securities and Exchange Commission* and *U.S. v. Minker*, quashed the subpoenas because the agency was acting beyond its authority or jurisdiction. These decisions (both before and after the passage of the Administrative Procedure Act) compel the conclusion that upon contest of an application to enforce an administrative subpoena the District Court should hear and determine a defense based on the claim that the agency has no jurisdiction as a matter of law. This the lower court refused to do in the present case.

The refusal of the lower court to hear and determine the claim that the Federal Trade Commission has no jurisdiction as a matter of law over advertising of accident and health insurance by Fireman's Fund seems to be based primarily on *Tobin v. Banks & Rambaugh*, 5th Cir. 201 F.2d 223, Cert. den., 345 U.S. 943 (1953). The *Tobin* case like the *Endicott Johnson* case enforced an administrative subpoena where the question of "coverage" depended upon the very evidence sought by the subpoena. To this extent it may be correct and this may be the reason why certiorari was denied. But if the *Tobin* case decided (as some people think it did at page 225) that the phrase "in accordance with law" prohibits the District Court from considering whether the person and subject matter to which the subpoena is directed are within the jurisdiction of the agency, it seems to be wrong. At least it is contrary to the decisions of the Supreme Court cited above and is contrary to the legislative history of the Act.

Before discussing the legislative history of the Administrative Procedure Act we wish to point out that this Court is in accord with the United States Supreme Court. *Penfield Co. of Calif. v. Securities and Exchange Commission*, 9th Cir. 143 F.2d 746, cert. den. 323 U.S. 768 (1944) enforced the subpoena which became the basis for the contempt involved in the other *Penfield* case cited above. In doing so this court quoted from the *Endicott-Johnson* case by pointing out at page 751 that the evidence sought was not plainly incompetent or irrelevant to any lawful purpose. In other words, this court considered the question of jurisdiction before enforcing the subpoena.

Legislative History.

The extensive legislative history of the Administrative Procedure Act is set forth in detail in the 423 pages of Senate Document No. 248, 79th Congress, 2nd Session.

Representative Walter in making the Committee Report to the House pointed out that this legislation was under consideration for more than 10 years. He went on to say, "certainly no measure of like character has had the painstaking and detailed study and drafting. Both the legislative and executive branches have participated and private interests of every kind have had an opportunity to present their views". Senate Document No. 248, p. 241.

The legislative history of the phrase "in accordance with law" reflects some of the views of these private interests. It meets them by saying that "in accordance with law" means "that no administrative subpoena may be enforced beyond the lawful jurisdiction of the agency". The statement was made in connection with the Senate Committee Print of June, 1945. The full text is:

"Private parties urge that after the word 'be' in the second sentence there be added, 'within the jurisdiction of the agency and otherwise', so that no administrative subpoena may be enforced beyond the lawful jurisdiction of the agency. It is felt that 'in accordance with law' as now stated [in the revised text set forth above] means that. If adopted, the suggestion should be understood as not authorizing a complete pretrial in the courts of factual issues committed to exclusively administrative determination; courts should, instead, do no more than satisfy themselves that, legally upon the general factual situation shown, the agency has jurisdiction of the spe-

cific subject matter involved.” Senate Document 248, page 28.

This interpretation as requiring the courts to satisfy themselves that the agency has jurisdiction continues throughout the legislative history. The Senate Committee Report on November 19, 1945 stated:

“The subsection constitutes a statutory limitation upon the issuance or enforcement of subpoenas in excess of agency authority or jurisdiction. This does not mean, however, that courts should enter into a detailed examination of facts and issues which are committed to agency authority in the first instance, but should, instead, inquire generally into the legal and factual situation and be satisfied that the agency could possibly find that it has jurisdiction. The subsection expressly recognizes the right of parties subject to administrative subpoenas to contest their validity in the courts prior to subjection to any form of penalty for noncompliance.” Senate Document 248, page 206.

The House Committee Report on May 3, 1946 said the same thing adding one sentence:

“The section constitutes a statutory limitation upon the issuance or enforcement of subpoenas in excess of agency authority or jurisdiction, in connection with any agency function or authority. It does not mean that upon contest courts should enter into a detailed examination of facts and issues which are committed to agency authority in the first instance; they should instead inquire generally into the legal and factual situation and be satisfied that the agency could lawfully have jurisdiction. The section expressly recognizes the right of parties subject to administrative

subpenas to contest their validity in the courts prior to subjection to any form of penalty for noncompliance. In such contests, the court is required to determine all relevant questions of law." Senate Document No. 248, page 265.

On May 24, 1956, when Representative Walter, a member of the House Judiciary Committee, gave an explanation of the entire Act he said:

"Subsection (c) of section 6 provides that, where Congress has authorized agencies to issue subpoenas, private parties may secure them upon an equality with Government representatives and without any more than a general showing of relevance and reasonable scope of the information sought. Where administrative subpoenas are contested, the court is to inquire into the situation and issue an order of enforcement only so far as the subpoena is found to be in accordance with law. This is a definite statutory right and is applicable to subpoenas of every kind addressed to any person under authority of any law. The effect of the subsection is thus to do more than merely restate the existing constitutional safeguards which in some cases, such as those involving public contractors—see *Endicott Johnson Corp. v. Perkins* (317 U.S. 501, 507, 509, 510 (1943)), have been held inapplicable. Also, the term 'in accordance with law' does not mean that a subpoena is valid merely because issued with due formality. It means that the legal situation, including the necessary facts, demonstrates that the persons and subject matter to which the subpoena is directed are within the jurisdiction of the agency which has issued the subpoena." Senate Document No. 248, p. 363.

The order should be reversed because the District Court refused to consider the defense of no jurisdiction.

At least one thing is self-evident from the Supreme Court decisions and from the legislative history of Section 6(c). This one thing is the judicial duty of the District Court to consider the authority or jurisdiction of the agency over the subject matter of the administrative proceeding in an action to enforce an administrative subpoena. Even those cases like *Endicott-Johnson Corp. v. Perkins*, supra, recognize that the evidence sought by the subpoena must be competent and relevant to a lawful purpose of the agency which issued the subpoena. In fact, the Government conceded in that case (as we pointed out before) that if the evidence sought "is not germane to any lawful purpose of inquiry" this alone would be an appropriate defense to an action to enforce the subpoena.

Certainly the claim that the Federal Trade Commission has no jurisdiction as a matter of law over advertising of accident and health insurance by Fireman's Fund is a claim that the evidence sought by the subpoena "is not germane to any lawful purpose of inquiry". This claim of no jurisdiction as a matter of law is purely a question of statutory interpretation; first, interpretation of Public Law 15 which divests the Federal Trade Commission of authority to regulate the business of insurance to the extent that such business is regulated by state law and second, interpretation of state law. These laws are matters of judicial notice. Therefore, as we said before, the claim of no jurisdiction is purely a matter of law; it does not depend upon any evidence sought by the subpoena.

The Federal Trade Commission should concede (as the Government did in the *Endicott-Johnson* case) that this claim is an appropriate defense to the action to enforce the subpoena. In any event, the Federal Trade Commission must admit that the District Court refused to consider this defense. Such refusal, in our opinion, is clearly contrary to law.

The subpoena should not be enforced until this defense of no jurisdiction has been considered and determined. Therefore, the order should be reversed.

Advertising of accident and health insurance by Fireman's Fund is regulated by state law throughout the country. Therefore the Federal Trade Commission has no jurisdiction over such advertising.

The Federal Trade Commission rests jurisdiction in this proceeding on Public Law 15, 79th Congress (59 Stat. 33, 15 U.S.C. 1011-1015) sometimes known as the McCarran Act. The pertinent provisions of the Act are:

Section 1.

“Congress declares that the continued regulation and taxation by the several States of the business of insurance is in the public interest, and that silence on the part of the Congress shall not be construed to impose any barrier to the regulation or taxation of such business by the several states.”

Section 2.

“(a) The business of insurance, and every person engaged therein, shall be subject to the laws of the several States which relate to the regulation or taxation of such business.

“(b) No Act of Congress shall be construed to invalidate, impair, or supersede any law enacted by

any State for the purpose of regulating the business of insurance, or which imposes a fee or tax upon such business, unless such Act specifically relates to the business of insurance: *Provided*, That after June 30, 1948, the Act of July 2, 1890, as amended, known as the Sherman Act, and the Act of October 15, 1914, as amended, known as the Clayton Act, and the Act of September 26, 1914, known as the Federal Trade Commission Act, as amended, shall be applicable to the business of insurance to the extent that such business is not regulated by State law.”

Section 3.

“(a) Until June 30, 1948, the Act of July 2, 1890, as amended, known as the Sherman Act, and the Act of October 15, 1914, as amended, known as the Clayton Act, and the Act of September 26, 1914, known as the Federal Trade Commission Act, as amended, and the Act of June 19, 1936, known as the Robinson-Patman Anti-discrimination Act, shall not apply to the business of insurance or to acts in the conduct thereof.

“(b) Nothing contained in this chapter shall render the said Sherman Act inapplicable to any agreement to boycott, coerce, or intimidate or act of boycott, coercion, or intimidation.”

The Act did two things. First, it provided a three-year moratorium until June 30, 1948 (originally January 1, 1948 but later extended by 61 Stat. 448) during which time the Federal Trade Commission had no jurisdiction over the business of insurance except in so far as the Sherman Act applied to boycotts, coercion or intimidation. Second, it provided, that after the moratorium Federal Trade Commission jurisdiction “shall be applicable to the

business of insurance to the extent such business is not regulated by state law.”

The background of this legislation indicates an obvious congressional purpose to permit state regulation and to prohibit federal regulation if a state does regulate. The regulation of the insurance business had belonged historically to the states exclusively. This followed from the Supreme Court decision in the famous old case of *Paul v. Virginia*, 8 Wall. 168 (1868), which held that the business of insurance was not commerce. In 1944 the Supreme Court in *United States v. South-Eastern Underwriters Association*, 322 U.S. 533, contrary to *Paul v. Virginia*, held that the business of insurance was commerce and therefore that it might be subject to federal regulation. Congress reacted almost immediately by passing Public Law 15 creating a three-year moratorium and providing that thereafter the Federal Trade Commission could regulate the business of insurance but only to the extent that such business was not regulated by state law.

Fireman's Fund has contended from the beginning and still contends that advertising is fully regulated by state law and, therefore, that the Federal Trade Commission is without jurisdiction in its proceeding against the company. This contention rests on the law of California as the domiciliary state which imposes the basic limitations on the company's authority to do any insurance business anywhere and thereby regulates its activities everywhere. It also rests on the laws of the other 47 states and the District of Columbia. These local laws can and do impose additional regulation but none can lift the basic limitations imposed by California.

This contention of full regulation by state law might seem to impose a monumental task of analyzing the laws of all forty-eight states and of the District of Columbia. However, this task has been done for us in a companion proceeding. The Federal Trade Commission issued complaints against 40 or 41 companies. None of these cases had been decided (even initially by the Hearing Examiners) at the time of the hearing in the District Court. Since then there have been some initial decisions by Hearing Examiners although, as yet, no final order by the Commission in any contested case. These initial decisions agree that advertising is regulated by state law in all states except Mississippi, Rhode Island, Montana, Missouri and the District of Columbia.

We believe it is also regulated by state law in these five jurisdictions. We said in the court below (Tr. 86) that there were some states without regulation but further study of the state statutes indicates local regulation everywhere.

In this connection we repeat the statement by Senator McCarran when he pointed out that the question of jurisdiction "is one strictly of legal construction". He went on to say:

"The inquiry will be, Is this practice regulated by state law? Not, is it effectively regulated, or is it wisely regulated; but simply is it regulated?" 94 Congressional Record No. 11, p. A 3214.

One of the Hearing Examiners, Mr. Frank Hier, in deciding against Federal Trade Commission jurisdiction except in these four states and the District of Columbia,

said in the *National Casualty Company* case (Federal Trade Commission Docket No. 6311):

“* * * The factual basis in this proceeding behind the phrase ‘to the extent not regulated by state law’ is that 36 states have enacted the so-called ‘Model Code’ or ‘Unfair Trade Practice Model Bill.’ This ‘Model Code’ was enacted to implement the above-quoted McCarran Act, and prohibit as illegal, the dissemination of false, deceptive or misleading statements regarding insurance in terms as broad as Section 5 of the Federal Trade Commission Act, and at the same time in far more specific terms as well. The prohibition is implemented by appropriate enforcement and penalizing provisions, so that any licensed local agent may be haled before the state insurance commissioner to show cause why his employer’s license to sell insurance in that state should not be revoked because of misrepresentation. In the opinion of the Hearing Examiner, they are fully effective to stop, within the state, the acts and practices charged here. Being an exercise of police power, these statutes obviously have no extraterritorial effect. In addition to these 36 states, eight others have statutes which, while couched in different language or varying somewhat in detail, are essentially the same in effect, as the ‘Model Bill.’ * * *”

There is no concurrent jurisdiction.

While we think the Federal Trade Commission will concede that 44 states (including California) have adequate state statutes, we expect the Commission to claim concurrent jurisdiction. In other words, we expect the Commission to claim jurisdiction over advertising used in California by a Michigan company and over advertising

used in Michigan by a California company, regardless of the extent of regulation by state laws in either state.

This theory of concurrent jurisdiction is contrary to Public Law 15, as Mr. Hier pointed out in the *National Casualty* case. We realize that an initial decision by a hearing examiner is not binding, but the logic of his reasoning is compelling. He said:

“Counsel supporting the complaint contend for concurrent jurisdiction nation-wide, notwithstanding the McCarran Act. The contention is that Congress did not intend thereby to delegate its jurisdiction over interstate commerce to the states, that at most it gave the states concurrent jurisdiction within their borders over the same acts and practices, that the states cannot ‘effectively’ regulate such acts. The logical end-result of this contention, of course, is that if every state had enacted the ‘Model Code,’ so that there was not a square yard of unregulated territory under such state law and, therefore, no ‘extent that such business is not regulated by state law,’ that nevertheless, there is Federal jurisdiction. Another effect of this contention would necessarily be, that if the insurance commissioner of Pennsylvania, after summons and hearing, acting under Pennsylvania’s Model Code, decides that respondent’s representations are not false or misleading, nevertheless, the Federal Trade Commission, the next day, could decide that it was. This flies in the very teeth of the McCarran Act’s prohibition that ‘no act of Congress shall be construed to *invalidate, impair or supersede* any law enacted by any state, etc.’ How it can be contended that such action under the Federal Trade Commission Act does not invalidate, impair or supersede the action under the state law is not made clear.”

It might be added that the three-year moratorium provision in Public Law 15 is totally inconsistent with the idea that Congress meant to establish a system of concurrent jurisdiction. If Congress did not want the Federal Trade Commission to regulate the business of insurance before the various states had an opportunity to pass their own statutes, it cannot be said that Congress wanted the Federal Trade Commission to step in and regulate after the states had adopted their own schemes of regulation. The logic of this reasoning is supported by the Congressional debate incident to the enactment of Public Law 15. Senator McCarran said:

“The moratorium would not be continued; but if in the meantime the States themselves had regulated the business of insurance, the Sherman and Clayton Acts and the other acts [obviously referring to the Federal Trade Commission Act] would not become effective.” Conference Report on S. Bill 340—Vol. 91, Part 2, Cong. Rec. p. 1443.

Another Hearing Examiner, Mr. J. Earl Cox, in the *American Hospital* case, (Federal Trade Commission Docket No. 6237), also pointed out that Federal Trade Commission jurisdiction under Public Law 15, “is precluded to the extent that the states in which respondent is licensed to conduct its insurance business have regulatory statutes applicable to the acts and practices charged in the complaint to be false and deceptive.” Mr. Cox supported his initial decision by quoting from various judicial decisions which have considered Public Law 15. The first and most important one is *Prudential Insurance Co. v. Benjamin*, 328 U.S. 408 (1946) which determined the con-

stitutionality of the law. In this decision the court, speaking through Mr. Justice Rutledge, said (pages 429-30) that by enacting Public Law 15,

“Obviously, Congress’ purpose was broadly to give support to the existing and future state systems for regulating and taxing the business of insurance. This was done in two ways. One was by removing obstructions which might be thought to flow from its own power, whether dormant or exercised, except as otherwise expressly provided in the Act itself or in future legislation. The other was by declaring expressly and affirmatively that continued state regulation and taxation of this business is in the public interest and that the business and all who engage in it ‘shall be subject to’ the laws of the several states in these respects.”

In a later case, *Maryland Casualty Company v. Cushing*, 347 U.S. 409, 413 (1954) the Supreme Court, again speaking of Public Law 15, used these words:

“Suffice it to say that even the most cursory reading of the legislative history of this enactment makes it clear that its exclusive purpose was to counteract any adverse effect that this court’s decision in *U. S. v. South-Eastern Underwriters Association*, 322 U.S. 533, 88 L. ed. 1440, 64 S Ct 1162, might be found to have on State regulation of insurance.”

Even later in *Wilburn Boat Co. v. Fireman’s Fund Insurance Co.*, 348 U.S. 310, 319 (1955) the Supreme Court said:

“* * * In the South-Eastern case, however, all the opinions had emphasized the historical fact that States had always been free to regulate insurance. The measure Congress passed shortly thereafter,

known as the McCarran Act, was designed to assure that existing state power to regulate insurance would continue. Accordingly, the Act contains a broad declaration of congressional policy that the continued regulation of insurance by the States is in the public interest, and that silence on the part of Congress should not be construed to impose any barrier to continued regulation of insurance by the States."

If the "exclusive purpose" of Public Law 15 was, as stated in *Maryland Casualty Company v. Cushing*, supra, to counteract any adverse effect of the decision of the *South-Eastern Underwriters* case on state regulation of insurance, there cannot be concurrent jurisdiction where there is regulation by state law. The *South-Eastern Underwriters* case held that the Sherman Act applied to an agreement by insurance companies fixing premium rates. It was argued that unrestricted competition in insurance results in financial chaos and public injury. The Supreme Court said, "Whether competition is a good thing for the insurance business is not for us to decide" and pointed out that exceptions to the Sherman Act "must come from the Congress." 322 US 561.

The adverse effect of this decision on state regulation of insurance was to make rate-fixing agreements subject to federal law. The obvious way to counteract this adverse effect was to make exceptions and thereby exclude such agreements from the Sherman Act.

Congress made exceptions, not only from the Sherman Act (except as to boycotts, coercion or intimidation) but also from the Federal Trade Commission Act and from the Clayton Act. Congress said, in Public Law 15, that

these federal statutes should be applicable to the business of insurance "to the extent that such business is not regulated by state law." If this means "concurrent jurisdiction", the adverse effect of the *South-Eastern Underwriters* case has not been counteracted; therefore, it must mean exclusive state jurisdiction to the extent of regulation by state law.

We have mentioned the extent of regulation in the 44 states. We shall now consider the laws in the other four states and the District of Columbia.

The Four States and the District of Columbia.

The business of insurance is the subject of comprehensive regulation in every state. Local statutes may vary but the states have exerted their powers to limits and in ways not sought generally to be applied in any other business. *Prudential Insurance Co. v. Benjamin*, supra. The dissenting opinion in the *South-Eastern Underwriters* case pointed out (322 US 590) that state regulation is "a going concern."

This applies not only to the 44 states mentioned above but also to the other four states and to the District of Columbia. We could argue that comprehensive regulation of the insurance business by every state precludes Federal Trade Commission jurisdiction over every phase of the insurance business.

However, it is not necessary to discuss the over-all effect of these comprehensive schemes of state regulation. The specific prohibitions against misrepresentation and against false or deceptive statements in the statutes of the four states and of the District of Columbia provide

ample support for stating that advertising of accident and health insurance is regulated by these state laws. The fact that a statute is part of a criminal code instead of an insurance code or applies to all advertising does not make it any less applicable to advertising of accident and health insurance.

Missouri.

Mr. Hier, in the *National Casualty* case, included Missouri as one of the four states without regulation. However, Mr. Cox, in the *American Hospital* case, pointed out that the company (a Texas corporation) was licensed to do business in Missouri and, therefore, bound by the statutes of Missouri. He said:

“These statutes appear to be adequate to protect the residents of that state from false, misleading or deceptive insurance advertising practices, and therefore are regulatory of the extent prescribed by Public Law 15 as being proscriptive of the applicability of the Federal Trade Commission Act.”

He was referring to Chapter 561, entitled “Crimes and Punishment,” of the laws of Missouri and particularly to Section 561.660, entitled “Publication of Untrue, Misleading or Deceptive Advertising—Penalty.” This is a general criminal statute making it unlawful to publish, disseminate or circulate any advertisement which contains any assertion, representation or statement of fact which is untrue, deceptive or misleading. The violation of the statute is a misdemeanor punishable by fine or imprisonment, or both. The statute is set forth in the appendix to this brief.

The American Hospital and Life Insurance Company, as its name implies, was authorized to do life insurance business as well as health and accident insurance business. Therefore, Mr. Cox also referred to the Missouri statutes which regulate life insurance business specifically but do not mention accident and health insurance. Fireman's Fund does not write life insurance as such, but we should point out that accident and health insurance with death benefits is a form of life insurance. In any event, a general statute providing criminal penalties for false advertising includes advertising of accident and health insurance and therefore regulates such advertising to the extent prescribed by Public Law 15 as being proscriptive of the applicability of the Federal Trade Commission Act.

Rhode Island.

The *American Hospital* case did not involve any activities in the state of Rhode Island; therefore, Mr. Cox had no occasion to consider Rhode Island law. However, Rhode Island, like Missouri, has a general statute (Chapter 612, Section 54) providing criminal penalties for any false advertising. The statute is set forth in the appendix to this brief.

Therefore, Rhode Island, like Missouri, has regulated the advertising of accident and health insurance to the extent prescribed by Public Law 15 as being proscriptive of the applicability of the Federal Trade Commission Act.

District of Columbia.

Again Mr. Cox had no occasion to consider the laws of the District of Columbia in the *American Hospital* case. These laws, like the laws of Missouri and Rhode

Island, include a general statute (Section 22-1411, District of Columbia Code) prohibiting any false advertising and providing criminal penalties. The statute is set forth in the appendix to this brief.

Therefore, the District of Columbia, like Missouri and Rhode Island, has regulated the advertising of accident and health insurance to the extent prescribed by Public Law 15 as being proscriptive of the applicability of the Federal Trade Commission Act.

Montana.

Montana, as far as we know, has no statute specifically regulating advertising of accident and health insurance, although it does have a statute (Section 40-1939, Montana Revised Code) providing that no life insurance company shall issue any circular or statement misrepresenting the terms, benefits or advantages of any policy issued by such corporation. Montana also has a statute (Section 94-1819, Montana Revised Code) prohibiting advertising regarding "the quality or price of goods, wares or merchandise" offered for sale to the public. "Merchandise" is defined by Webster to include objects of commerce, and insurance, at least since the *South-Eastern Underwriters* case, is an object of commerce.

Further, Section 40-1106 of the Revised Code of Montana, provides that if the insurance commissioner finds on examination, hearing or other evidence that any insurance company doing business in Montana uses methods that are such "as to render its operations hazardous to the public or its policy holders" the insurance commissioner shall suspend or revoke all certificates of authority

granted to the company and to its officers and agents. We think that a false statement regarding the benefits of accident and health insurance policies is "hazardous to the public", who might be induced to purchase accident and health insurance, relying upon the false statement. It might also be hazardous to the present holders of policies if it was sufficiently widespread to subject the company to litigation which might adversely affect its financial ability to pay claims.

These statutes are set forth in the appendix to this brief.

Under all of these circumstances, it seems to us that Montana has regulated the business of accident and health insurance to the extent prescribed by Public Law 15 as being proscriptive of the applicability of the Federal Trade Commission Act.

Mississippi.

Mississippi is now in the process of becoming a "model act" state. The proposed statute is House Bill 145 introduced in the Mississippi House of Representatives on January 25, 1956, and now pending before the Insurance Committee. We anticipate favorable action and hope to report to this court in our reply brief or at oral argument that Mississippi is completely regulated by state law. However, Mississippi does have statutes which prohibit misrepresentations. Section 5683 of the Mississippi Code dealing with insurance provides:

"Any solicitor, agent, examining physician or other person who shall knowingly or willfully make any false or fraudulent statement or representation in or

with reference to any publication for insurance, or who shall make any such statement for the purpose of obtaining fee, commission, money or benefit in any corporation, transacting business under this chapter, shall be guilty of a misdemeanor, and upon conviction shall be punished by a fine of not less than one hundred dollars, nor more than five hundred dollars, or imprisonment in the county jail for not less than thirty days." (1906)

Section 2149 of the Mississippi Code dealing with Crimes and Misdemeanors, provides:

"Every person whom with intent to cheat or defraud another, shall designedly, by color of any false intoken or writing, or by another false pretense, obtain the signature of any person to any written instrument, or obtain from any person any money, personal property, or valuable thing, upon conviction thereof, shall be punished by imprisonment in the penitentiary not exceeding three years, or in the county jail not exceeding one year, and by fine not exceeding three times the value of the money, property, or thing obtained."

It has been suggested that these statutes do not apply to a corporation and therefore are inapplicable to the present situation. However, they do apply to any false or fraudulent statement or representation by an "agent". Therefore, in our opinion, they regulate Fireman's Fund which disseminates advertising in Mississippi only through independent local agents or brokers, each of whom is separately licensed under Mississippi law.

In our opinion there is not a square yard of territory in the United States unregulated by local state law, with

the possible exception of Mississippi. Obviously the only lawful inquiry by the Federal Trade Commission must concern acts and practices not regulated by state laws; evidence of acts and practices in states which do regulate would not be germane to such an inquiry. If there is any unregulated territory the subpoena should be limited to acts and practices there and should be quashed in so far as it seeks evidence of activities in other states or in the District of Columbia.

Direct Mail Advertising.

Mr. Hier, in the *National Casualty* case, points out that the company did something less than 5% of its business direct by mail and that state law cannot control the United States mails. He concludes therefrom that the Federal Trade Commission has jurisdiction over the direct-by-mail portion of the company's business, citing *United States v. Sylvanus*, 7th Cir., 192 F. 2d 96 (1951).

We think this is wrong. Certainly a state can regulate advertising by anyone doing business within its borders, whether such advertising is disseminated by mail or by local agents. *Robertson v. People of the State of California*, 328 U.S. 440 (1946) affirmed the conviction of a California resident for violating the California statutes requiring an agent or broker to have a license under the California insurance code. Robertson was acting for an Arizona company not admitted to do business in California. The court pointed out that literature regarding the company's insurance business apparently was mailed from the home office. In upholding the conviction, the court said, at pages 458-459:

“* * * the commerce clause is not a guaranty of right to import into a state whatever one may please, absent a prohibition by Congress, regardless of the effects of the importation upon the local community. This is true whether what is brought in consists of diseased cattle or fraudulent or unsound insurance.”

See also *Travelers Health Association v. Commonwealth of Virginia*, 339 U.S. 643 (1950), which upheld a Virginia cease and desist order against a Nebraska association whose only office was in Omaha, Nebraska, from which it conducted a mail-order health insurance business into other states, including Virginia.

In any event the fact that a state cannot directly regulate the mails as such does not necessarily mean that the Federal Trade Commission has been given power to do so. *United States v. Sylvanus* is not a Federal Trade Commission case. It did not involve any violation of the Federal Trade Commission Act or of any other act administered by the Commission. It was a mail fraud case.

The defendants contended that the indictment was defective because of Public Law 15, claiming that their activities were regulated by the laws of Illinois, the state in which they did business. The court overruled this contention, stating (192 F2d 100):

“However, we believe that it can not properly be said that this indictment has to do with the regulation of insurance business in Illinois. Rather it has to do with the question of whether defendants have used the mails in pursuance of a scheme so to manipulate their authorized regulated business in Illinois as to result in fraudulent deception of its prospective

policy holders. * * * It is immaterial that the fraudulent plan itself is outside the jurisdiction of Congress (citing authority), or that the scheme charged involved a transaction forbidden by the laws of the state.”

Fireman's Fund has alleged in its answer in the administrative proceeding (Tr. 61) that it does not sell or offer to sell any accident and health insurance by mail or by any other direct means, but at all times sells such insurance only through various independent agents and independent brokers, each of whom is licensed to do business and separately regulated by the state in which the independent agent or independent broker is located. We think the Federal Trade Commission will admit that this is true, although the administrative complaint alleges in paragraph 4 (Tr. 10) that the statements were disseminated “through the United States mails and by other means or through its agents in commerce between and among the various states of the United States.”

It should be remembered that authority to regulate the use of the mails has been delegated to the Postmaster General who may issue fraud orders to prevent any person or company from using the mails to obtain money or property by means of false representation or promises. 26 Stat. 466 as amended by 28 Stat. 964, 39 U.S.C. 259.

While we think that the Federal Trade Commission has no authority to regulate the use of the mails as such, if the court disagrees with us the subpoena should be limited to evidence of the use of the mails in direct mail advertising and should be quashed as to evidence of other acts or practices.

Fireman's Fund is a California corporation. Its advertising of accident and health insurance is regulated by California law everywhere. Therefore, the Federal Trade Commission has no jurisdiction over such advertising anywhere.

Congress in passing Public Law 15 authorized the states to regulate the business of insurance and prohibited the Federal Trade Commission from doing so to the extent that such business is regulated by state law. The power to regulate thus granted to each state is the power to regulate commerce, and as the Supreme Court said in *United States v. Darby*, 312 U.S. 100, 113 (1941),

“The power to regulate commerce is the power ‘to prescribe the rule by which commerce is governed’. *Gibbons v. Ogden*, 9 Wheat. (US) 1, 196, 6 L.ed. 23, 70. It extends not only to those regulations which aid, foster and protect the commerce, but embraces those which prohibit it.”

This power to aid, foster and protect the business of insurance should be exercised with appropriate regard to the public, to the companies, and to the policy holders. It should be used to promote the growth of the business of insurance and to insure the safety of such business.

California as the domiciliary state of Fireman's Fund should regulate Fireman's Fund not only with appropriate regard to the citizens of California but also with appropriate regard to the growth and safety of the company. California, as we pointed out before, created Fireman's Fund by granting it authority to be a corporation and to do insurance business. This grant of authority governs Fireman's Fund in each of the 48 states and the District of Columbia. It carries with it all limitations and prohibitions imposed by California.

One of the limitations California has imposed on Fireman's Fund prohibits the company from causing or permitting any advertising containing any misrepresentations regarding the terms of a policy issued by the company or regarding the benefits or privileges promised under such a policy. This prohibition follows Fireman's Fund everywhere and therefore excludes authority of the Federal Trade Commission over such advertising anywhere.

This thought seems to startle some people. Why should it? A corporation is an artificial being created by state law. A natural person has certain inherent rights and powers; a corporation does not. A corporation may do those things (but only those things) authorized by laws of the state which creates it.

Everyone should admit that a California insurance corporation cannot do a banking business in California or anywhere else. Further, a California corporation authorized to issue 100,000 shares of common stock and no other, cannot issue more common stock or issue shares of any other class in California or in any other state. Why, then, should anyone be startled by the fact that a California insurance company is governed and limited everywhere by California law?

There is nothing in Public Law 15 which suggests that the regulation of the business of insurance must be by local state law. It should therefore be self-evident that California by prohibiting false advertising by Fireman's Fund everywhere has excluded Federal Trade Commission authority over such advertising anywhere.

The pertinent statute is Section 780 of the California Insurance Code, which reads:

“An insurer or officer or agent thereof, or an insurance broker or solicitor, shall not cause or permit to be issued, circulated or used, any misrepresentation of the following:

“(a) The terms of a policy issued by the insurer or sought to be negotiated by the person making or permitting the misrepresentation.

“(b) The benefits or privileges promised thereunder.

“(c) The future dividends payable thereunder.”

Extremely strong enforcement sections are provided to insure compliance with Section 780. Violation of Section 780 by any person is made a misdemeanor punishable by fine or imprisonment (Section 782). More important, a violation of Section 780 by the company may result in suspension of the insurer's certificate of authority to do the class of insurance in respect to which the violation occurred (Section 783.5) and without a certificate of authority a company may not transact any insurance business (Section 700). To do so would be a misdemeanor (Section 10500). In addition, the Insurance Commissioner, who is commanded by statute (Section 12926) to require from every insurer a full compliance with the provisions of the Code, may bring an action to enjoin violations of any law including Section 780 (Section 12928.6). These statutes (other than Section 780 quoted above) are set forth in the appendix to this brief. These sections of California law include California in the category of states (other than “Model Act” States) having

statutes regulatory of the business of insurance to the extent prescribed by Public Law 15 as being proscriptive of the applicability of the Federal Trade Commission Act.

Although there is no case authority directly in point on either side, it seems clear that Insurance Code Section 780 and the related sections are sufficiently broad to cover dissemination of misleading advertising outside of California by a California insurer. The section does not purport to limit itself only to advertising distributed within the confines of California. The Insurance Code taken as a whole gives ample indication that Section 780 was not intended to refer only to advertising disseminated within the borders of California, for where particular sections are intended to operate only when the consumer or insured interest are within the state they make this clear by a specific statement. Thus, for instance, rebates of premiums are forbidden by Section 750, but it is expressly provided that this applies only where the subject matter of the insurance is located in California. If the Legislature had desired to limit Section 780 only to situations where California residents receive the false advertising, a similar express limitation would have been written in the statute.

Very important is the fact that Section 780 prohibits not only the actual dissemination of misrepresentations, but also *causing* or *permitting* them to be issued. Since Fireman's Fund has its main office in California, any representations that it makes are caused or permitted in California regardless of where they are disseminated. It would be disregarding the plain wording of the statute to construe it to apply only to misrepresentations *issued locally*.

Although no California decision has yet considered the precise question of whether Section 780 prohibits a California insurer from using false advertising in other states, we expect the California Attorney General to file a brief amicus on behalf of the California Insurance Commissioner, construing Section 780 in support of our contention that this section applies to Fireman's Fund everywhere. In fact, the California Attorney General is now making this contention in the case of *Foster v. McConnell*, No. 422572 in the Superior Court of the State of California in and for the City and County of San Francisco. This is an action by Mr. Foster for a writ of mandate to compel the Insurance Commissioner to restore Mr. Foster's license which had been revoked because of misrepresentations made outside of California. The misrepresentations were made at Fort Ord, a military reservation, which is as much outside of California as is any other state or the District of Columbia.

The interpretation by the Attorney General, especially in the absence of any direct judicial authority, is most persuasive. As stated in 6 Cal. Jur. 2d 97:

"The opinions of the attorney general are not of controlling authority, but in the light of the relation of the office to the general government, they are regarded as having quasi-judicial character and are accorded substantial weight by the courts." (Citing *People v. Shearer*, 30 C. 645; *Carter v. Commissioner on Qualifications*, 14 C. 2d 179, 93 P. 2d 140).

Despite the lack of direct judicial authority, there is no absence of analogy. In *People v. Lindsay*, 86 Colo. 458, 283 P. 539 (1929), for example, it was held that a

statute which provided that the Judge of the Juvenile Court should not "act as an attorney or counselor at law," without specifying that the prohibition was limited to Colorado, applied to the practice of law in the courts of New York. Similarly, in *In Re Porep*, 60 Nev. 393, 111 P.2d 533 (1941), the court held that a Rule of Professional Conduct of the State Bar of Nevada reading "A member of the state bar shall not solicit professional employment by advertising or otherwise" prohibited a Nevada attorney from advertising his services in California.

The so-called "extraterritorial" effect of the California statutes is not unconstitutional.

The so-called extraterritorial effect of the California regulation of its domestic insurance corporations is not unconstitutional. Modern cases have shown an increasing liberality in allowing states to regulate where under the old formulæ represented by cases like *Allgeyer v. Louisiana*, 165 U.S. 578 (1897) and *St. Louis Cotton Compress Co. v. Arkansas*, 260 U.S. 346 (1922), the regulations might have been considered to constitute a violation of the due process clause of the Fourteenth Amendment because of their extraterritorial effects. It is well settled now that a state may apply its own law to acts which occur outside of its borders where interests of the state are in some manner affected by these actions.

Thus, in *Hoopston Canning Co. v. Cullen*, 318 U.S. 313 (1943), the court upheld the validity of certain provisions of the New York Insurance Law regulating foreign reciprocal insurance associations where property in New York was insured, despite the fact that the actual business regulated was transacted in Illinois. Said the court at p. 320:

“These regulations cannot be attacked merely because they affect business activities which are carried on outside the state.”

In *Alaska Packers Asso. v. Industrial Accident Com.*, 294 U.S. 532 (1935), the Supreme Court held that the California Workmen's Compensation statute might be applied where the contract of employment was entered into in California although the particular employee involved was a nonresident alien and the accident occurred in Alaska. Here it would seem that California contacts were of considerably less weight than those of Alaska. Nevertheless, the California courts were not precluded from applying California law, despite its extraterritorial effect.

Recently in *Watson v. Employer's Liability Assur. Corp.*, 348 U.S. 66 (1954), the Supreme Court upheld a Louisiana direct action statute as applied to an insurance contract entered into in another state between two foreign corporations. The court rejected the argument that it violated the due process clause because of its extraterritorial application, holding that where a state has a substantial interest in applying its own law it may do so constitutionally.

Other cases applying similar standards to uphold state regulation attacked on the ground of extraterritoriality include *Osborn v. Ozlin*, 310 U.S. 53 (1940) and *Traveler Health Association v. Virginia*, 339 U.S. 643 (1950).

It is clear that the so-called “extraterritorial” effect of the California regulatory statutes is constitutional. Hence, California regulation alone prevents the Federal

Trade Commission from assuming jurisdiction over Fireman's Fund anywhere, and so the subpoena should be quashed even if there is any place outside of California unregulated by local law.

CONCLUSION.

As we conclude, it is well to bear in mind that Congress in passing Public Law 15 placed definite limitations on the jurisdiction of the Federal Trade Commission over the business of insurance. Congress did this by saying that the Federal Trade Commission could regulate the business of insurance "to the extent that such business is not regulated by state law". There is no suggestion of dual or concurrent regulation. Instead, the obvious purpose of Public Law 15 was to permit the states to take back (except as to boycotts, etc.) the exclusive jurisdiction which the states had prior to the *South-Eastern Underwriters* case.

This exclusive jurisdiction includes regulation of advertising in the accident and health insurance field. If such advertising by Fireman's Fund is regulated by state law everywhere (by local law or by California law), the Federal Trade Commission has no jurisdiction, and the subpoena should be quashed because the evidence sought by the subpoena could not be germane to any lawful purpose or inquiry of the Commission. If the court finds that there is any place where such advertising is unregulated by state law, the evidence to be produced should be limited to such place, because evidence of acts or practices elsewhere would not be competent or relevant.

In any event, the order supporting the subpoena should be reversed because the District Court refused to consider the defense of no jurisdiction and enforced the subpoena looking only to the formalities without any regard as to whether the administrative proceeding was lawful or unlawful. The Government in *Endicott-Johnson Corp. v. Perkins*, supra, conceded that this defense of unlawful inquiry is an appropriate defense. Appellant James F. Crafts is entitled to have this defense judicially determined before being required to obey the subpoena.

Dated: March 15, 1956.

Respectfully submitted,

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and

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(Appendix Follows.)

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Appendix

CALIFORNIA INSURANCE CODE.

Section 700. *Admittance required; issuance of certificate; compliance with requirements; hearing.* A person shall not transact any class of insurance business in this State without first being admitted for such class. Such admission is secured by procuring a certificate of authority from the commissioner. Such certificate shall not be granted until the applicant conforms to the requirements of this code and of the laws of this State prerequisite to its issue. After such issue the holder shall continue to comply with the requirements as to its business set forth in this code and in the laws of this State. Where a hearing is held under this section the proceedings shall be conducted in accordance with Chapter 5 of Part 1 of Division 3 of Title 2 of the Government Code, and the Commissioner shall have all the powers granted therein.

Section 750. *Rebate of premium.* An insurer, insurance agent, broker, or solicitor, personally or by any other party, shall not offer or pay, directly or indirectly, as an inducement to insurance on any subject matter in this State, any rebate of the whole or part of the premium payable on an insurance contract, or of the agent's or broker's commission thereon, and such rebate is an unlawful rebate.

Section 782. *Misdemeanor.* Any person violating the provisions of section 780 or 781 is guilty of a misdemeanor and punishable by a fine not exceeding one hun-

dred dollars (\$100) or by imprisonment not exceeding six months.

Section 783.5. *Suspension of certificate of authority.* If an insurer knowingly violates any provision of sections 780 or 781, or knowingly permits any officer, agent, or employee so to do, the commissioner, after a hearing in accordance with the procedure provided in section 704, may suspend the insurer's certificate of authority to do the class of insurance in respect to which the violation occurred.

Section 10500. *Transaction of business without certificate; misdemeanor.* Every person not expressly exempted by the provisions of this code that transacts life or disability insurance without a valid and unrevoked certificate of authority or without a valid and unrevoked certificate of exemption issued pursuant to this article, is guilty of a misdemeanor. Every employee, officer or agent of any person who knowingly assists any person in the transaction of insurance in violation of the provisions of this code, is guilty of a misdemeanor.

Section 12926. *Requiring compliance with code.* The commissioner shall require from every insurer a full compliance with all the provisions of this code.

Section 12928.6. *Suit for injunction.* Whenever the commissioner believes, from evidence satisfactory to him, that any person is violating or about to violate any provision of this code or any order or requirement of the commissioner issued or promulgated pursuant to authority expressly granted the commissioner by any provision of this code or by law, the commissioner may bring an action

in the name of the people of the State of California in the superior court of the State of California against such person to enjoin such person from continuing such violation or engaging therein or doing any act in furtherance hereof. In such action an order or judgment may be entered awarding such preliminary or final injunction as is proper.

DISTRICT OF COLUMBIA.

District of Columbia Code,

Section 22-1411.

Fraudulent Advertising.

It shall be unlawful in the District of Columbia for any person, firm, association, corporation, or advertising agency, either directly or indirectly, to display or exhibit to the public in any manner whatever, whether by handbill, placard, poster, picture, film, or otherwise; or to insert or cause to be inserted in any newspaper, magazine, or other publication printed in the District of Columbia; or to issue, exhibit, or in any way distribute or disseminate to the public; or to deliver, exhibit, mail, or send to any person, firm, association, or corporation any false, untrue, or misleading statement, representation, or advertisement with intent to sell, barter, or exchange any goods, wares, or merchandise or anything of value or to deceive, mislead, or induce any person, firm, association, or corporation to purchase, discount, or in any way invest in or accept as collateral security any bonds, bill, share of stock, note, warehouse receipt, or any security; or with the purpose to deceive, mislead, or induce any person,

firm, association, or corporation to purchase, make any loan upon or invest in any property of any kind; or use any of the aforesaid methods with the intent or purpose to deceive, mislead or induce any other person, firm, or corporation for a valuable consideration to employ the services of any person, firm, association, or corporation so advertising such services.

MISSOURI.

Vernon's Annotated Missouri Statutes,
Section 561.660.

Publication of untrue, misleading or deceptive advertisements—penalty.

1. Any person, firm, corporation, or association who with intent to sell or in anywise dispose of merchandise, securities, service or anything offered by such person, firm, corporation or association, directly or indirectly, to the public for sale or distribution or with intent to increase the consumption thereof or to induce the public in any manner to enter into any obligation relating thereto or to acquire title thereto or an interest therein, make, publishes, disseminates, circulates or places before the public, or causes, directly or indirectly, to be made, published, disseminated, circulated or placed before the public in this state, in a newspaper or other publication or in the form of a book, notice, handbill, poster, bill, circular, pamphlet, or letter or in any other way, an advertisement of any sort regarding merchandise, securities, service or anything so offered to public, which advertisement contains any assertion, representation or statement of fact

which is untrue, deceptive or misleading, shall be guilty a misdemeanor.

2. And shall upon conviction thereof be punished by fine of not less than twenty-five dollars nor more than one hundred dollars, or by imprisonment in the county jail not less than ten days nor more than ninety days, or both such fine and imprisonment; providing, that nothing herein shall apply to any proprietor or publisher of any newspaper or magazine who publishes, disseminates or circulates any such advertisement without the knowledge of the unlawful or untruthful nature of such advertisement.

MONTANA.

Montana Revised Code,
Section 94-1819.

False statements regarding merchandise.

It shall be unlawful for any person, corporation, copartnership, or association of individuals to make any false statement regarding the quality or price of goods, wares or merchandise in any advertisement, circular, letter, poster, handbill, display cards, or other written or printed matter by means of which such goods, wares or merchandise are offered for sale to the public.

Montana Revised Code,
Section 40-1106.

Publication of examination—revocation of license.

When the commissioner of insurance deems it to the interest of the public, he may publish the result of any

examination or investigation in a newspaper of general circulation published at the state capital. If the commissioner finds upon examination, hearing, or other evidence, that any insurance company, including surety companies, organized in this state, or in any other state, territory, or foreign country, is in an unsound condition, or has failed to comply with the law or with the provisions of its charter, or that its condition is, or its methods are such as to render its operations hazardous to the public or to its policyholders, or that its actual assets, exclusive of its capital, are less than its liabilities, or if its officers or agents refuse to submit to examination, or to perform any legal obligation relative thereto, or refuse on behalf of the company to pay the examination charges, he shall suspend or revoke all certificates of authority granted to said insurance company, and to its officers or agents and shall cause notice thereof to be published in one or more daily newspapers of general circulation published at the state capital, and no new business shall thereafter be done by it or its agents in this state while such default or disability continues, nor until its authority to do business is restored. Before suspending or revoking the certificate of authority of any such company, the commissioner shall, unless it is insolvent or its capital impaired, grant it fifteen days in which to show cause why such action should not be taken. Any insurance company, including surety companies, organized under the laws of this state, or any other state, territory, or foreign country whose certificate of authority has been suspended or revoked by the commissioner, may, within fifteen days thereafter, appeal from said order to the district court, which court, upon the filing of the proper petition, shall cause

the record and orders of the commissioner to be brought before it, and upon a hearing of the case by the court *de novo*, the court shall either confirm or revoke the order of the commissioner, as the law and the fact of the case may warrant.

RHODE ISLAND.

General Laws of Rhode Island,

Ch. 612, Sec. 54.

No person, firm, corporation or association, with intent to sell, or in anywise dispose of merchandise, securities, service or anything offered by such person, firm, corporation or association, directly or indirectly, to the public for sale or distribution, or with intent to increase the consumption thereof, or to induce the public in any manner to enter into any obligation therefor or to acquire title thereto, or any interest therein, shall make, publish, disseminate, circulate, or place before the public, or cause, directly or indirectly, to be made, published, disseminated, circulated or placed before the public, in this state, in newspaper or other publication, or in the form of a book, notice, handbill, poster, bill, circular, pamphlet, letter, or in any other way, an advertisement of any sort regarding merchandise, securities, service, or anything so offered to the public, which advertisement contains any assertion, representation, or statement of fact, which is untrue, deceptive or misleading, or which uses, with or without the use of the word "value" or the word "worth," or other synonymous term, any word or words, figure or figures, which falsely or fraudulently convey or would

reasonably so convey to a reader the meaning that the merchandise, securities, service, or other things so advertised are intrinsically worth more than, or were previously sold or offered for sale at a price higher than, the price quoted in said advertisement. For the purpose of this section the worth or value of any merchandise, securities, services or other things so advertised, shall be taken to be the prevailing market price, wholesale if offered at wholesale, retail if the offer was at retail at the time of publication of such advertisement in the locality wherein the advertisement was published. No person, firm, corporation or association, with intent to profit, directly or indirectly thereby, shall place, or cause or produce an advertisement to be placed in or affixed to a newspaper, without the consent of the publisher of said newspaper; and in any way calculated to lead the reader thereof to believe that such advertisement was circulated by such publisher. The placing of an advertisement, notice, circular, pamphlet, card, handbill, printed notice of any kind in or the affixing thereof to a newspaper is presumptive evidence that the person or persons, or corporation or corporations, whose name or names appear therein as proprietor, advertiser, vendor, or exhibitor or whose goods, wares and merchandise are advertised therein, cause or procured the same to be so placed or affixed with intent to profit thereby. Any person, firm, corporation or association who shall violate any of the provisions of this section shall be fined not less than \$50.00 nor more than \$300.00, or be imprisoned not more than 90 days or shall suffer both such fine and imprisonment. (P.L. 1928, Chap. 1199, amending P.L. 1914, Chap. 1073.)

175-14072

United States Court of Appeals
for the Ninth Circuit

TRADE V. UNITED APPELLANT

FEDERAL TRADE COMMISSION, APPELLEE

ON APPEAL FROM AN ORDER ENFORCING SUBPOENA

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**In the United States Court of Appeals
for the Ninth Circuit**

No. 14972

JAMES F. CRAFTS, APPELLANT

v.

FEDERAL TRADE COMMISSION, APPELLEE

*APPEAL FROM THE UNITED STATES DISTRICT COURT FOR THE
NORTHERN DISTRICT OF CALIFORNIA, SOUTHERN DIVISION*

BRIEF FOR APPELLEE

I. Statement of the case

This is an appeal from an order entered by the United States District Court for the Northern District of California, Southern Division, on October 25, 1955, pursuant to Section 9 of the Federal Trade Commission Act (38 Stat. 722; 15 U. S. C., Sec. 49).¹

On March 11, 1955, the Federal Trade Commission instituted a proceeding (R. 8-16) against Fireman's Fund Indemnity Company alleging that it had reason

¹ Pertinent provisions of Sections 5 and 9 of the Federal Trade Commission Act (38 Stat. 717 (1914), as amended, 15 U. S. C. 41 (1952)) and the McCarran-Ferguson Insurance Regulation Act (59 Stat. 33 (1945), as amended, 15 U. S. C. 1011 (1952)) are set forth in the Appendix.

to believe the corporation was violating the provisions of Section 5 of the Federal Trade Commission Act. On September 22, 1955, the Commission, acting pursuant to Section 9 of the Federal Trade Commission Act, issued and caused to be served upon the president of Fireman's Fund, James F. Crafts, a subpoena duces tecum requiring his presence at 10:00 o'clock a. m., October 17, 1955, before the Commission's hearing examiner in San Francisco, California, to testify in that proceeding and to produce certain documents (R. 20-23). Crafts appeared at the hearing but refused to answer questions or to produce any of the documentary evidence required by the subpoena (R. 42-43).

In accordance with the provisions of Section 9 of the Federal Trade Commission Act, the Commission, on October 18, 1955, applied to the court below for an order enforcing the subpoena (R. 3-23). At the conclusion of the hearing on this application the court entered an order directing compliance with the subpoena (R. 46-47). This appeal is from that order.

II. Question presented

Did the District Court rightly decide that the question presented by appellant was one of coverage?

III. Argument

A. Preliminary statement

Appellant contends that the District Court held the Commission's subpoena must be enforced "merely because it was issued and served with due formality" (Br. 7). This misstates the holding of the court.

Actually appellant presented to the court below a question of "coverage" and the court correctly held that it could not decide a question of "coverage" in the sterile atmosphere of a subpoena enforcement proceeding (R. 63, 77, 81, 90).

Initially it should be observed that appellant's claim below was limited:

Appellant recognized that Section 5 of the Federal Trade Commission Act gave the Commission authority to investigate and proceed against—

Unfair methods of competition in commerce and unfair or deceptive acts or practices in commerce * * *.

Appellant did not contest the Commission's general subpoena power under Section 9 of the Federal Trade Commission Act;² and,

Appellant conceded that the McCarran-Ferguson Insurance Regulation Act (hereafter referred to as the McCarran Act)³ specifically made the Federal Trade Commission Act applicable to the business of insurance when it provided in part:

That after * * * 1948 * * * the Federal Trade Commission Act * * * shall be applicable to the business of insurance to the extent that such business is not regulated by State law.

² See *Clarke v. Federal Trade Commission*, 128 F. 2d 542 (C. A. 9, 1942). Provisions substantially similar to Sections 9 and 10 of the Federal Trade Commission Act appear in later acts, including: Fair Labor Standards Act, Packers & Stockyards Act, Securities & Exchange Commission Act and the National Labor Relations Act, and cases involving those acts are pertinent to a consideration of the Commission's powers under Sections 9 and 10 of the Federal Trade Commission Act.

³ 59 Stat. 33 (1945); 15 U. S. C. 1011-1015 (1952).

In the court below, appellant argued: first, that the Commission had no jurisdiction over the practices of Fireman's Fund because as a California corporation, Fireman's Fund is regulated by California law no matter where it does business; and, in the alternative, argued that at least 38 states had laws relating to insurance advertising, and that the subpoena should be limited to its acts and practices in states without such laws.⁴

Since the McCarran Act clearly made the Federal Trade Commission Act applicable to the business of insurance "to the extent that such business is not regulated by State law," the District Court pointed out that appellant was presenting a question of coverage (R. 77), and that under the authority of *Endicott Johnson Corp. v. Perkins*, 317 U. S. 501 (1943) and the line of cases following, it was not the function of the District Court to decide the question of coverage (R. 63).

Appellant attempted to distinguish this line of cases in three ways. He argued:

1. That the question presented was not a question of coverage, but rather a question of law, whether the Commission has authority to proceed at all (R. 82).

2. That Section 6 (c) of the Administrative Procedure Act gives the court the right to decide the question presented (R. 68, 74, 78-80).

⁴ Appellant himself did not know which states had laws relating to the advertising of insurance (R. 66). He stated: "I think I would have to admit there are at least three states that do not purport to regulate advertising in the health and accident field." (R. 87.)

3. That the *Endicott Johnson* line of cases does not apply to this case because that line of cases involved investigative proceedings, while this is an adjudicative proceeding (R. 68, 74).

Despite appellant's argument the District Court correctly held that the case presented only a question of coverage; that the Administrative Procedure Act did not change the prior law concerning issuance of administrative subpoenas;⁵ and that the extent of the court's inquiry was not changed by the fact that the proceeding was adjudicative rather than investigative.⁶

Upon the appeal to this court, appellant has not pressed his argument that the subpoena should be limited to those states which have no laws relating to the advertising of accident and health insurance. He has also abandoned his argument that the extent of the court's inquiry in this proceeding is different because this is an adjudicative rather than an investigative proceeding. Appellant now argues that California law alone deprives the Commission of jurisdiction over all acts and practices of Fireman's Fund, or in the alternative, that the Commission is ousted of jurisdiction because the court can find

⁵ See, *Tobin v. Banks & Rumbaugh*, 201 F. 2d 233 (C. A. 5, 1953); *Bland Lumber Co. v. N. L. R. B.*, 177 F. 2d 555 (C. A. 5, 1949); *United States v. Woerth*, 130 F. Supp. 930 (D. C. N. D. Iowa, 1955); *Kilgore Nat. Bank v. Federal Petroleum Board*, 209 F. 2d 557 (C. A. 5, 1954); *N. L. R. B. v. Hamilton*, 24 LRRM 2525 (D. C. N. D. Cal., 1948).

⁶ The *Endicott Johnson* proceeding itself, for example, was based on a subpoena issued after a complaint similar to that of the Commission.

some laws affecting insurance advertising in every state if it will search the statutes. (The second argument was not raised in the court below.) In either event, appellant claims that the Commission has no jurisdiction over Fireman's Fund and that therefore the subpoena is not "in accordance with law."

In each argument appellant requests a decision as to whether this corporation's acts and practices are subject to the Commission's jurisdiction before the Commission can find out what the acts and practices are. But whether this particular company's practices are covered by the Federal Trade Commission Act is a question to be decided by the Commission in the first instance, after all the facts have been taken into account. Appellant's request for a decision on this question is premature.

B. The District Court rightly held that the question presented by appellant was one of coverage which it could not decide

Appellant states (Br., p. 2) that the purpose of this proceeding is to secure a judicial interpretation of Public Law 15 (79th Cong.), and thereby determine what authority, if any, the Federal Trade Commission has over the advertising of accident and health insurance policies. Appellant readily admitted below (R. 38, 41) that he had no standing to enjoin the Commission from developing the facts regarding the advertising acts and practices of Fireman's Fund⁷ and it is clear that he could not foreclose investigation by seeking a declaratory judgment as to the extent of

⁷ *Myers v. Bethlehem Shipbuilding Corp.*, 303 U. S. 41 (1938); *T. C. Hurst & Son v. Federal Trade Commission*, 268 Fed. 874 (D. C. E. D. Va., 1920).

the Commission's authority.⁸ But appellant argues that because of the provisions of Section 6 (c) of the Administrative Procedure Act⁹ he can, by resisting a subpoena, obtain a determination of the extent of the Commission's authority. This determination he wants made in a factual vacuum and with respect to a statute which specifically makes the Federal Trade Commission Act applicable to the business of insurance. There is no support for appellant's position.

Although some questions are appropriate to and can be decided by the courts in a proceeding to enforce an administrative subpoena these questions were not raised below.¹⁰ In the court below, appellant correctly stated the law (R. 82), that where an administrative agency has *no authority whatever* as a matter of law, the court can refuse to enforce the subpoena. But appellant conceded below (R. 85), as we think

⁸ *Miles Laboratories, Inc. v. Federal Trade Commission*, 140 F. 2d 683 (C. A. D. C., 1944); *Aron, et al. v. Federal Trade Commission*, 50 F. Supp. 288 (D. C. E. D. Pa., 1943).

⁹ 60 Stat. 237, 15 U. S. C. § 1005 (c).

¹⁰ An administrative agency may have the power to issue a subpoena, but only the courts can enforce the subpoena. The court can refuse to enforce the subpoena on certain issues which are fully before the court and which do not require further information before an adequate decision can be made. For example, the court can refuse to enforce the subpoena on the grounds that a witness claims privilege (*Boyd v. United States*, 116 U. S. 616 (1886)), that the subpoena is too vague or unreasonable (*Hale v. Henkel*, 201 U. S. 43 (1906); *Federal Trade Commission v. American Tobacco Co.*, 264 U. S. 298 (1924)), or that the hearing is not of the kind authorized by the statute (*Harriman v. Interstate Commerce Commission*, 211 U. S. 407 (1908); *Ellis v. Interstate Commerce Commission*, 237 U. S. 434 (1915)), or that the subpoena was issued by an unauthorized person (*Cudahy Packing Co. v. Holland*, 315 U. S. 357 (1942)).

he must concede, that the McCarran Act made the Federal Trade Commission Act applicable to the business of insurance. The extent to which the Commission Act is applicable and whether or not it reaches particular acts and practices of Fireman's Fund presents a question of coverage which can not be decided in this proceeding.

The court below pointed up this issue to appellant as follows:

But aren't you anticipating here? In other words, this is the start of this hearing. It may be that if the Federal Trade Commission issues some order or some regulation after the hearing has been had and after the evidence is in which is in violation of Public Law 15, that you then have the right to complain about that law and come to a court to have it determined. But at the moment this is the obtaining of evidence as to what actually has been done. (R. 90.)

We submit that the court rightly decided, in accordance with the holding in *Endicott Johnson Corp. v. Perkins*, 317 U. S. 501 (1943) and numerous cases to the same effect,¹¹ that the subpoena could not be

¹¹ See for example: *Oklahoma Press Publishing Co. v. Walling*, 327 U. S. 186 (1946); *Penfield Co. v. S. E. C.*, 330 U. S. 585 (1947); *Woolley v. United States*, 97 F. 2d 258 (C. A. 9, 1938); *Brewer v. S. E. C.*, 145 F. 2d 233 (C. A. 9, 1944); *Consolidated Mines v. S. E. C.*, 97 F. 2d 704 (C. A. 9, 1938); *Mines & Metals Corp. v. S. E. C.*, 200 F. 2d 317 (C. A. 9, 1952); *Penfield Co. v. S. E. C.*, 143 F. 2d 746 (C. A. 9, 1944); *Detweiller Bros. v. Walling*, 157 F. 2d 841 (C. A. 9, 1946); *N. L. R. B. v. Anchor Rome Mills*, 197 F. 2d 447 (C. A. 5, 1952); *Tobin v. Banks & Rumbaugh*, 201 F. 2d 233 (C. A. 5, 1953); *Holloway Gravel Co. v. McComb*, 174 F. 2d 421 (C. A. 5, 1949); *Bland Lumber Co. v. N. L. R. B.*, 177 F. 2d 555 (C. A. 5, 1949); *Durkin v. Fisher*, 204 F. 2d 930

resisted on the grounds that the Commission has no jurisdiction over Fireman's Fund or its particular practices since the general subject matter of the investigation is clearly within the scope of the Commission's authority.¹²

Appellant insists (Br., pp. 6-20) that Section 6 (c) of the Administrative Procedure Act¹³ changes the law of the *Edicott Johnson* line of cases, regarding the scope of review in subpoena enforcement proceedings. This claim is without merit. Section 6 (c) of the Administrative Procedure Act provides that the court shall enforce any subpoena issued by an administrative agency to the extent that it is found to be "in accordance with law." It is clear that by this provision the Congress intended to leave the scope

(C. A. 7, 1953); *Kilgore Nat. Bank v. Federal Petroleum Board*, 209 F. 2d 557 (C. A. 5, 1954); *Martin Typewriter Co. v. Walling*, 135 F. 2d 918 (C. A. 1, 1943); *Walling v. Benson*, 137 F. 2d 501 (C. A. 8, 1943), cert. denied 320 U. S. 791 (1943); *United States v. Woerth*, 130 F. Supp, 930 (D. C. N. D. Iowa, 1955); *Cudahy Packing Co. v. Fleming*, 122 F. 2d 1005 (C. A. 8, 1941), rev'd. on other grounds, 315 U. S. 785 (1942).

¹² The reason for this is a practical one: In order to determine whether an agency has jurisdiction over a particular person or activity it is necessary to ascertain facts which are not readily available to the agency. As the Supreme Court pointed out in *Oklahoma Press Publishing Co. v. Walling*, 327 U. S. 186 (1946), if the agency were not allowed to investigate the facts upon which its jurisdiction would be based, the agency could not perform its function efficiently. Congress has authorized the Commission to determine the question of coverage in the first instance, and its decision in this regard is subject to review in an appropriate United States Court of Appeals.

¹³ Administrative Procedure Act, 60 Stat. 237, 5 U. S. C. § 1005 (c).

of judicial inquiry unchanged upon application for the enforcement of a subpoena.¹⁴

As originally proposed Section 6 (c) did contain a provision to the effect that, in a subpoena enforcement proceeding, the court should "determine all relevant questions of law raised by the parties, including the authority or jurisdiction of the agency." Upon consideration, this provision was omitted, and the phrase "in accordance with law" was substituted in its place. The purpose of the change was explained in *Tobin v. Banks & Rumbaugh*, 201 F. 2d 223 (C. A. 5, 1953), cert. denied 345 U. S. 942 (1953), as follows:

¹⁴ *Bland Lumber Co. v. N. L. R. B.*, 177 F. 2d 555, 583 (C. A. 5, 1949)—

"Congress intended to leave the scope of judicial inquiry unchanged upon an application for the enforcement of a subpoena. * * *" (At 558.)

"Its error, if any, in conducting a particular case within a general class cannot be asserted as a defense to an action to enforce a subpoena. Whether or not there is a legal impediment here of an administrative nature is an issue primarily for the Board's determination, which is not subject to review until final action has been taken by it." (At 557.)

The Court discussed the effect of the Administrative Procedure Act upon the prior law:

"This significant amendment is persuasive that the Congress intended to leave the scope of judicial inquiry unchanged upon an application for the enforcement of a subpoena. In adopting the Administrative Procedure Act as it now reads, * * * the rule laid down by the Supreme Court in the case of *Endicott Johnson Corporation v. Perkins*, *supra*, was enacted into statutory law." (At 558.)

See also: *Tobin v. Banks & Rumbaugh*, 201 F. 2d 223 (C. A. 5, 1953), cert. denied 345 U. S. 942 (1953); *N. L. R. B. v. Hamilton*, 24 LRRM 2525 (D. C. N. D. Cal., 1948); *United States v. Woerth*, 130 F. Supp. 930 (D. C. N. D. Iowa, 1955); *Kilgore National Bank v. Federal Petroleum Board*, 209 F. 2d 557 (C. A. 5, 1954).

* * * Upon consideration, this provision was omitted and the term "in accordance with law" was inserted. We cannot assume that this deliberate substitution of language in view of the existing law, was not intended to define with exactness the limits of the inquiry in judicial enforcement proceedings. The reports of both the Senate and the House Judiciary Committee sustain this view.¹⁵

* * * * *

* * * There is nothing in the Administrative Procedure Act which suggests that the duty and burden of determining the question of coverage in the first instance was intended to be shifted from the administrative agency to the courts. To give effect to appellee's contention would, in most instances, sterilize the investigative powers of the Administrator and force him to trial without the benefit of the very evidence which the subpoena is designed to secure. (201 F. 2d at 226.)

The *Tobin* case involved a subpoena duces tecum issued by the Secretary of Labor under the Fair Labor Standards Act, which has provisions for issuing subpoenas similar to those of the Federal Trade Commission Act. The only issue was whether or not the corporation and its employees were subject to the

¹⁵ S. Doc. No. 248, 79th Cong., 2d sess., 185, 206:

"The subsection constitutes a statutory limitation upon the issuance or enforcement of subpoenas in excess of agency authority or jurisdiction. This does not mean, however, that courts should enter into a detailed examination of facts and issues which are committed to agency authority in the first instance, but should, instead, inquire generally into the legal and factual situation and be satisfied that *the agency could possibly find that it has jurisdiction.*" [Emphasis supplied.]

provisions of the statute. The court held that in the absence of a clear showing of gross abuse of discretion, the District Court had no jurisdiction to inquire into the question of coverage. On the question of whether the judicial enforcement of the subpoena was dependent on a prior adjudication that the employees are within the coverage of the act, the court said:

This is not a novel issue, but is one which we have previously considered. *Mississippi Road Supply Co. v. Walling*, 5 Cir., 136 F. 2d 391; *Holloway Gravel Co. v. McComb*, 5 Cir., 174 F. 2d 421, 422. In the last cited case we expressly refrained from deciding whether the question of coverage was a proper subject for determination on application for enforcement for a subpoena duces tecum, but held that in the absence of a clear showing of unreasonableness or gross abuse of the administrative investigative function, the courts will not interfere with an investigation "merely in order to render an anticipatory judgment on the merits." (201 F. 2d at 224.)

In the *Tobin* case, the court decided precisely the same issue as that presented here. It stated the rule that the subpoena must be enforced without deciding whether the appellant is covered by the statute, provided the subpoena is relevant to a legitimate field of inquiry and is otherwise reasonable. The rule as stated in the *Tobin* and *Bland Lumber* cases has been adopted in succeeding cases.¹⁶

¹⁶ See, for example: *United States v. Woerth*, 130 F. Supp. 930 (D. C. N. D. Iowa, 1955); *Kilgore National Bank v. Federal Petroleum Board*, 209 F. 2d 557 (C. A. 5, 1954); *N. L. R. B. v. Hamilton*, 24 LRRM 2525 (D. C. N. D. Cal., 1948).

Appellant seeks to avoid the impact of the decided cases by claiming that he has raised a question of the Commission's authority to act. He negated this whole argument in the court below when he conceded (R. 85) that the Commission did have authority to investigate the advertising practices of insurance companies. He makes no such concession in his present brief except indirectly (see *infra*, p. 17) but his failure to concede does not change the plain, unequivocal language of the McCarran Act which makes the Commission Act applicable to the business of insurance "to the extent such business is not regulated by State law." By simply asserting that the Commission is not acting "in accordance with law" appellant seeks to foreclose development of the evidence required to answer the questions posed by the act: What are the acts and practices? To what extent are those acts and practices regulated by state law?

Appellant avoids the real question of whether the Commission's subpoena is relevant to a legitimate field of inquiry. He tries to foreclose the Commission's investigation by suggesting that the McCarran Act did not make the Federal Trade Commission Act applicable when the state of incorporation of the company proceeded against has a law relating to insurance advertising or when it is possible to find some law which might relate to insurance advertising in the other jurisdictions in which the company does business. There is no warrant for such an interpretation of the McCarran Act. Clearly the Commission has been given some authority over the business of insurance. Whether the Commission Act covers this

particular company's acts and practices depends initially on a finding as to what those acts and practices are and the extent to which they are regulated by state law. The Commission makes the initial decision of coverage by looking at the practices and the law. After the Commission has issued an order the legal question of the extent that these practices are regulated by state law will be ripe for a final determination by a United States Court of Appeals when both the facts and the law are fully presented.

Appellant's argument that the Commission has no jurisdiction over any acts and practices of Fireman's Fund, as a matter of law, because it is regulated by California law would require an interpretation of the McCarran Act which would do violence to its language and which finds no support in the legislative history of the act¹⁷ or the cases interpreting it.¹⁸ This interpretation would mean that Congress by the McCarran Act made the area of operation of California law coextensive with the Federal Trade Commission Act

¹⁷ Senator McCarran in explaining the act said:

"* * * It is not the intention of Congress in the enactment of this legislation to clothe the States with any power to regulate or tax the business of insurance beyond that which which (sic) they had been held to possess prior to the decision of the United States Supreme Court in the South-Eastern Underwriters Association case. * * * In other words, we give to the States no more powers than they previously had, and we take none from them." (91 Cong. Rec. 1443.)

See also to the same effect H. R. No. 143, 79th Cong., 1st sess.

¹⁸ See, for example, *Prudential Ins. Co. v. Benjamin*, 328 U. S. 408 (1946); *Maryland Casualty Co. v. Cushing*, 347 U. S. 409, 413 (1954); *Wilburn Boat Co. v. Fireman's Fund Ins. Co.*, 348 U. S. 310 (1955); *United States v. Sylvanus*, 192 F. 2d 96 (C. A. 7, 1951), cert. denied 342 U. S. 943 (1952).

and it would in effect substitute California for the Commission as the authority to police the channels of interstate commerce for the purpose of preventing the use of those channels for the dissemination of false or deceptive advertising.

If regulation of a company by the state in which it was incorporated was sufficient to exclude the Commission from jurisdiction over that company's activities anywhere in the United States, there would be no real protection to citizens in other states. There are some areas which the individual states with their limited territorial jurisdictions cannot regulate.¹⁹ Problems arise particularly in connection with radio and television broadcasts, the use of the mails, the interstate distribution of periodicals and the use of bait advertising wherein isolated acts and practices are but part of a pattern which spells deception only when viewed as a whole. Even if a citizen of another state had any rights under California law, he would be forced to come to a California forum to protect those rights.

Appellant argues (Br., p. 38) that the states have been given a new power to regulate commerce but the

¹⁹ *United States v. South-Eastern Underwriters Association*, 322 U. S. 533, 552 (1944).

United States v. Sylvanus, 192 F. 2d 96 (C. A. 7, 1951), cert. denied 342 U. S. 943 (1952), recognizes that the mails cannot be regulated by state law, and that federal jurisdiction over the mails did not interfere with state regulation of insurance.

Congress did not—"surrender control of the use of the mails or cease to authorize the federal courts to determine whether the mails have been utilized in attempted execution of a scheme to defraud, and that the district court, by entertaining jurisdiction, *did not interfere with regulation of the insurance company by the state * * **" [Emphasis supplied.] (192 F. 2d 96, 100.)

legislative history of the McCarran Act makes clear that Congress did not attempt to grant the states any new power to regulate commerce.²⁰ Appellant quotes from *United States v. Darby*, 312 U. S. 100 (1941) but his quotation is a description of federal, not state power. It in no way supports his argument. In fact the *Darby* case makes clear that state regulation in itself would not exclude the Commission's jurisdiction:

The power of Congress over interstate commerce "is complete in itself, may be exercised to its utmost extent, and acknowledges no limitations other than are prescribed in the Constitution." *Gibbons v. Ogden, supra*, 196. That power can neither be enlarged nor diminished by the exercise or non-exercise of state power * * *,"

It is no objection to the assertion of the power to regulate interstate commerce that its exercise is attended by the same incidents which attend the exercise of the police power of the states. (At 114.)

We do not argue that the California statute is unconstitutional, but appellant's interpretation of the California statute attempts to give it an extraterritorial

²⁰ *Prudential Ins. Co. v. Benjamin*, 328 U. S. 408 (1946); *Wilburn Boat Co. v. Fireman's Fund Ins. Co.*, 348 U. S. 310 (1955); *Robertson v. California*, 328 U. S. 440 (1946); *Maryland Casualty Co. v. Cushing*, 347 U. S. 409 (1954). See also H. R. No. 143, 79th Cong., 1st sess.

In the *Prudential* case, the Court said:

"And we agree with *Prudential* that there can be no inference that Congress intended to circumvent constitutional limitations upon its own power." (At 430.)

torial effect which even the cases cited by appellant (Br., pp. 43, 44) do not sustain.²¹

In the court below, appellant argued that if regulation of Fireman's Fund by California law did not oust the Commission of jurisdiction then the subpoena should be limited to those states which had no laws relating to insurance advertising. He admitted (R. 87) some states had no such laws. On this appeal, appellant does not press this argument, but returns to this theory in his conclusion (Br., p. 45) when he asks without argument that the subpoena be limited to those states which have no laws regulating insurance advertising. Here again appellant recognizes the Commission's authority to act in this field and, therefore, clearly presents only a question of coverage which is not to be decided at this stage of the proceeding.

In his brief appellant raises a question not raised below. He argued that there is regulation in every

²¹ *Alaska Packers Asso. v. Industrial Accident Com.*, 294 U. S. 532 (1935), (cited by appellant, Br., p. 44) states:

"The California statute does not purport to have any extra-territorial effect, in the sense that it undertakes to impose a rule for foreign tribunals, nor did the judgment of the state supreme court give it any." (At 540.)

"It is unnecessary to consider what effect should be given to the California statute if the parties were domiciled in Alaska or were their relationships to California such as to give it a lesser interest in protecting the employee by securing for him an adequate and readily available remedy." (At 543.)

See also *Watson v. Employers Liability Assurance Corp.*, 348 U. S. 66 (1954), (cited by appellant, Br., p. 44), wherein state action was upheld, but the court said:

"Here we have no claim of interference with interstate commerce or with the operations of the Federal government * * *." (At 82.)

state so that the Commission has no jurisdiction over insurance advertising. Appellant neglects to point out that state "regulation" (in the sense that every state had some law which might possibly relate to insurance advertising) existed at the time the McCarran Act was passed; but the Federal Trade Commission Act was still made applicable to the business of insurance. Clearly, Congress intended to give the Commission some jurisdiction over insurance, but under appellant's interpretation, the Commission at no time had any jurisdiction, whether or not states passed any further laws relating specifically to insurance.

Appellant does not show that there is state regulation of insurance in 48 states. For some states appellant cites regulations not specifically relating to insurance; for other states appellant does not cite the statutes at all, but merely refers to decisions by hearing examiners, the initial fact finders of the Commission, whose decisions on the law are in no way binding on either the Commission or the courts. He does not point out that other examiners have reached different conclusions or that the decisions of Examiners Hier and Cox to which he refers have been appealed to the Commission.

No facts are shown by appellant. Even the practices to be regulated by whatever state laws the court might find are unknown. Yet this is the precise function for which the Commission was created: to obtain the facts and to apply initially the law to the facts found. After this has been done it will then be appropriate for the courts to review the Commission's action.

Under appellant's mechanical theory of jurisdiction, if a state has enacted a law regulating insurance, there is no room for Federal jurisdiction. But Justice Holmes points out, in *St. Louis Cotton Compress Co. v. Arkansas*, 260 U. S. 346, 349 (1922) on which appellant relied (Br., p. 43): "It is true that the State may regulate the activities of foreign corporations within the State but it cannot regulate or interfere with what they do outside."²² And as the Supreme Court said in *United States v. South-Eastern Underwriters Association*, 322 U. S. 533 (1944):

The power granted Congress is a positive power. It is the power to legislate concerning transactions which, reaching across state boundaries, affect the people of more states than one—to govern affairs which the individual states, with their limited territorial jurisdictions, are not fully capable of governing. (At 552.)

Appellant could hardly contend seriously that there is no separate Federal jurisdiction. Yet appellant's argument presupposes that individual action by the

²² It should be noted that appellant states (Br., p. 43) that modern cases have shown an increasing liberality in allowing states to regulate where under the old formulae represented by cases like *Allgeyer v. Louisiana* and *St. Louis Cotton Compress Co. v. Arkansas*, state regulations might have been considered unconstitutional. The House Report on the McCarran Act states:

"Briefly, your committee is of the opinion that we should provide for the continued regulation and taxation of insurance by the states, subject always, however, to the limitations set out in the controlling decisions of the United States Supreme Court, as, for instance, in *Allgeyer v. Louisiana* (165 U. S. 578), *St. Louis Cotton Compress Co. v. Arkansas* (260 U. S. 346), and *Connecticut General Insurance Co. v. Johnson* (303 U. S. 77 * * *." (H. R. No. 143, 79th Cong., 1st sess.)

several states would result in the complete regulation of the use of the channels of interstate commerce, and that no matter what use might be made of such channels there could be no Federal regulation of them. Certainly there was no basis for such a contention prior to the McCarran Act and there is no basis for a claim that the act granted the states any new power.

We have shown (1) that the Commission acted within the scope of its statutory authority in bringing these proceedings, (2) that appellant is asking the court to decide only a question of coverage, and (3) that appellant's interpretation of the McCarran Act is not in accord with the legislative intent, the decided cases involving Federal and state jurisdiction over interstate commerce, or public policy.

IV. Conclusion

The subpoena was issued in accordance with law. The Court cannot decide the question of coverage on this appeal from an order requiring appellant to give evidence. The Federal Trade Commission therefore prays that this Court affirm the order from which appellant prosecutes his appeal.

Respectfully submitted.

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APPENDIX

Pertinent provisions of the Federal Trade Commission Act:

SEC. 5. (a) (1) Unfair methods of competition in commerce, and unfair or deceptive acts or practices in commerce, are hereby declared unlawful,

* * * * *

(6) The Commission is hereby empowered and directed to prevent persons, partnerships, or corporations * * * from using unfair methods of competition in commerce and unfair or deceptive acts or practices in commerce (38 Stat. 719 (1914), as amended, 15 U. S. C. 45 (a) (1952)).

(b) Whenever the Commission shall have reason to believe that any such person, partnership, or corporation has been or is using any unfair method of competition or unfair or deceptive act or practice in commerce, and if it shall appear to the Commission that a proceeding by it in respect thereof would be to the interest of the public, it shall issue and serve upon such person, partnership, or corporation a complaint stating its charges in that respect and containing a notice of a hearing upon a day and at a place therein fixed at least thirty days after the service of said complaint. * * * If upon such hearing the Commission shall be of the opinion that the method of competition or the act or practice in question is prohibited by this Act, it shall make a report in writing in which it shall state its findings as to the facts and shall issue and cause to be served on such person, partnership, or corporation an order requiring such person, partnership, or corporation to cease and desist from using

such method of competition or such act or practice. * * * (38 Stat. 719 (1914), as amended, 15 U. S. C. 45 (b) (1952).)

(c) * * * The findings of the Commission as to the facts, if supported by evidence, shall be conclusive. To the extent that the order of the Commission is affirmed, the court shall thereupon issue its own order commanding obedience to the terms of such order of the Commission. (38 Stat. 719 (1914), as amended, 15 U. S. C. 45 (c) (1952).)

SEC. 9. That for the purposes of this Act the commission, or its duly authorized agent or agents, shall at all reasonable times have access to, for the purpose of examination, and the right to copy any documentary evidence of any corporation being investigated or proceeded against; and the commission shall have power to require by subpoena the attendance and testimony of witnesses and the production of all such documentary evidence relating to any matter under investigation. Any member of the commission may sign subpoenas, and members and examiners of the commission may administer oaths and affirmations, examine witnesses, and receive evidence.

Such attendance of witnesses, and the production of such documentary evidence, may be required from any place in the United States, at any designated place of hearing. And in case of disobedience to a subpoena the commission may invoke the aid of any court of the United States in requiring the attendance and testimony of witnesses and the production of documentary evidence. .

Any of the district courts of the United States within the jurisdiction of which such inquiry is carried on may, in case of contumacy or refusal to obey a subpoena issued to any corporation or other person, issue an order requiring such corporation or other person to appear before the commission, or to produce documentary evidence if so ordered, or to give evi-

dence touching the matter in question; and any failure to obey such order of the court may be punished by such court as a contempt thereof. (38 Stat. 722 (1914), as amended, 15 U. S. C. 49 (1952).)

Provisions of the McCarran-Ferguson Insurance Regulation Act:

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the Congress hereby declares that the continued regulation and taxation by the several States of the business of insurance is in the public interest, and that silence on the part of the Congress shall not be construed to impose any barrier to the regulation or taxation of such business by the several States.

SEC. 2. (a) The business of insurance, and every person engaged therein, shall be subject to the laws of the several States which relate to the regulation or taxation of such business.

(b) No Act of Congress shall be construed to invalidate, impair, or supersede any law enacted by any State for the purpose of regulating the business of insurance, or which imposes a fee or tax upon such business, unless such Act specifically relates to the business of insurance: *Provided*, That after June 30, 1948, the Act of July 2, 1890, as amended, known as the Sherman Act, and the Act of October 15, 1914, as amended, known as the Clayton Act, and the Act of September 26, 1914, known as the Federal Trade Commission Act, as amended, shall be applicable to the business of insurance to the extent that such business is not regulated by State law.

SEC. 3. (a) Until June 30, 1948, the Act of July 2, 1890, as amended, known as the Sherman Act, and the Act of October 15, 1914, as amended, known as the Clayton Act, and the Act of September 26, 1914, known as the Federal Trade Commission Act, as amended, and

the Act of June 19, 1936, known as the Robinson-Patman Anti-Discrimination Act, shall not apply to the business of insurance or to acts in the conduct thereof.

(b) Nothing contained in this Act shall render the said Sherman Act inapplicable to any agreement to boycott, coerce, or intimidate, or act of boycott, coercion, or intimidation.

SEC. 4. Nothing contained in this Act shall be construed to affect in any manner the application to the business of insurance of the Act of July 5, 1935, as amended, known as the National Labor Relations Act, or the Act of June 25, 1938, as amended, known as the Fair Labor Standards Act of 1938, or the Act of June 5, 1920, known as the Merchant Marine Act, 1920.

SEC. 5. As used in this Act, the term "State" includes the several States, Alaska, Hawaii, Puerto Rico, and the District of Columbia.

SEC. 6. If any provision of this Act, or the application of such provision to any person or circumstances, shall be held invalid, the remainder of the Act, and the application of such provision to persons or circumstances other than those as to which it is held invalid, shall not be affected. (59 Stat. 33 (1945), as amended, 15 U. S. C. 1011 (1952).)

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For the Ninth Circuit

JAMES F. CRAFTS,

Appellant,

vs.

FEDERAL TRADE COMMISSION,

Appellee.

APPELLANT'S REPLY BRIEF.

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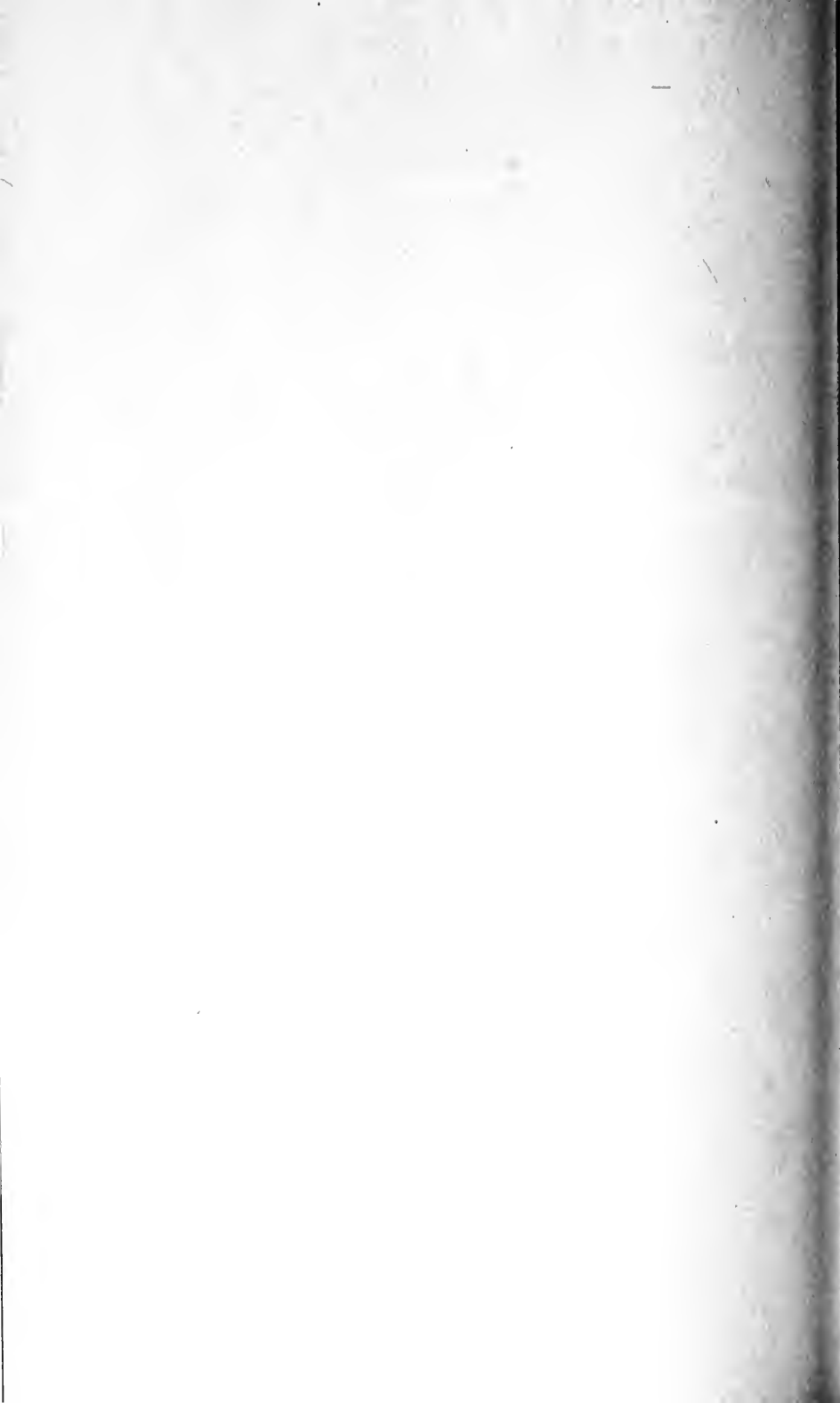


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**United States Court of Appeals
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JAMES F. CRAFTS,

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APPELLANT'S REPLY BRIEF.

The primary issue in this case involves Public Law 15, 79th Congress (sometimes called the "McCarran Act"), which says that the Federal Trade Commission Act is applicable to the business of insurance "to the extent that such business is not regulated by State law." Query: Does the Federal Trade Commission have jurisdiction over advertising of accident and health insurance in any state where such advertising is "regulated by State law"?

The secondary issue (but actually the first problem) involves Section 6(c) of the Administrative Procedure Act which says that an administrative subpoena shall be sustained "to the extent that it is found to be in accordance with law." Query: Should a District Court sustain a subpoena merely because it was issued with proper formality

without also considering the defense that the Federal Trade Commission was exceeding its authority by requiring Mr. Crafts as President of Fireman's Fund Indemnity Company, to produce evidence of advertising over which the Commission has no jurisdiction?

Fireman's Fund Indemnity Company is a California corporation licensed to and doing business in all 48 States and the District of Columbia. The complaint in the administrative proceeding (as modified on a motion for more definite statement) seeks to regulate advertising of accident and health insurance by Fireman's Fund in all States, except California, and in the District of Columbia. The subpoena served on Mr. Crafts is as broad as the original complaint but on motion to quash was limited to exclude California. It requires the production of advertising, insurance policies, and business records covering all of the other 47 States and the District of Columbia.

Fireman's Fund has contended from the beginning that its advertising of accident and health insurance is fully regulated by State law, i.e., by California law everywhere and by local law in other States and in the District of Columbia. The District Court refused to consider this question and sustained the subpoena merely because it was issued with proper formality. This is contrary to all decisions of the United States Supreme Court (both before and after the passage of the Administrative Procedure Act) and particularly contrary to *Jones v. Securities and Exchange Commission*, 298 U.S. 1 (1935) and *U.S. v. Minker*, U.S., 100 L. Ed. (Adv.) 191 (1956), both of which quashed administrative subpoenas because the agency was acting beyond its authority.

The Federal Trade Commission in its Brief for Appellee ignores both of these decisions. Instead, the Commission argues that a question of "coverage" cannot be considered as a defense to an application to enforce a subpoena. This may be true when "coverage" depends upon the very facts sought by the subpoena, as, for example, in *Endicott-Johnson Corp. v. Perkins*, 317 U.S. 501 (1943), where the question was whether certain employees worked on government contracts or on private contracts. But it is not true when (as here) the question of jurisdiction is purely a matter of law depending on State statutes and not on any issues of fact.

The cases which the Commission cites do not support the argument that a District Court cannot consider the jurisdiction of the Commission before enforcing a subpoena. For example, *United States v. Woerth*, 130 F. Supp. 930 (Brief for Appellee, pp. 5, 8, 10, and 12) says at page 942 that the first test is whether "the inquiry made is within the jurisdiction of the demanding agency."

The Commission attempts to avoid this basic legal principle by calling attention to its powers of investigation. The Commission says Public Law 15 gives it some power of some kind over some phase of the business of insurance. The Commission then argues that general power to investigate entitles the Commission to evidence of all acts or practices everywhere. The same argument was used in an attempt to sustain the subpoena in *Jones v. Securities and Exchange Commission*, supra. The SEC contended that the order enforcing the subpoena "may rest upon the general power to conduct investigations." 298 U.S. 25. The Supreme Court rejected the argument and

quashed the subpoena, pointing out that the Commission had no jurisdiction over the particular proceeding in which the subpoena had been issued. The same contention was necessarily rejected in *U.S. v. Minker*, supra. The immigration officials have general power to conduct investigations, but the subpoenas were quashed when they attempted to exceed their authority in a particular case.

The Commission itself has given us another answer to this argument. The subpoena served on Mr. Crafts was not issued as a part of any investigatory proceeding but instead is a part of an adjudicative proceeding commenced by the issuance and service of a formal complaint under the Commission's Rules of Practice for Adjudicative Proceedings. Code of Federal Regulations, Title 16, Chapter 1, Sub-chapter A, Part 3; 20 Federal Register, 3303, et seq. This complaint (Tr. 8) makes specific charges against Fireman's Fund (which the company denies); it gives notice of the time and place of an adversary hearing (Tr. 17); it requires the company to answer the charges (Tr. 17); and it sets forth a form of regulatory order which the Commission would issue in the event of no contest or default by the company (Tr. 18-19). The subpoena served on Mr. Crafts is a part of this proceeding and would require him to testify and produce company records at the adversary hearing (Tr. 20-23). The Commission, having thus framed the issues in an adjudicative or quasi-judicial proceeding, cannot now rely upon its general powers of investigation in order to sustain the subpoena. The validity of this subpoena does not depend upon the power of investigation but is to be tested by the authority of the Commission to regulate the specific

acts and practices set forth in the complaint, i. e., advertising of accident and health insurance by Fireman's Fund.

Even if we should accept the contention that the Federal Trade Commission may have some power of some kind to investigate some phase of the business of insurance this would not mean that a District Court should enforce a Commission subpoena in an adjudicative proceeding without first deciding that the purpose of the inquiry is a legitimate one. Sec. 6(c) of the Administrative Procedure Act says that a subpoena may be enforced "to the extent that it is found to be in accordance with law." This requires the court to make a judicial determination of jurisdiction before ordering compliance. Or, as stated in the legislative history (Senate Committee Report, November 19, 1945, and House Committee Report, May 3, 1946), Section 6(c) "constitutes a statutory limitation upon the issuance or enforcement of subpoenas in excess of agency authority or jurisdiction."

The Commission concedes (as it must) that lack of jurisdiction is an appropriate defense to an application to enforce an administrative subpoena. Brief for Appellee, p. 7. Appellant presented this defense to the District Court in its answer (Tr. p. 24) and requested the District Court to quash the subpoena or, in the alternative, to limit the inquiry to those areas (if any) in which the advertising was not regulated by State law. However, the District Court enforced the subpoena merely because it had been issued with proper formality. The refusal of the District Court to consider the defense of no jurisdiction is clearly erroneous and should be reversed.

The District Court relied on *Tobin v. Banks & Ram-
baugh*, 5th Cir. 201 F. 2d 223, cert. den. 345 U.S. 943
(1953). This case may be right in refusing to consider
"coverage" which depends upon the very facts sought
by the subpoena, but it cannot be construed as precluding
judicial inquiry into the question of jurisdiction as a
matter of law. The Administrative Procedure Act did
not remove constitutional limitations on agency action.
Instead, as Mr. Justice Jackson said in *U.S. v. Morton
Salt Co.*, 338 U.S. 632 (1950):

"The Administrative Procedure Act was framed
against a background of rapid expansion of the ad-
ministrative process as a check upon administrators
whose zeal might otherwise have carried them to
excesses not contemplated in the legislation creat-
ing their offices. It created safeguards even nar-
rower than the constitutional ones, against arbitrary
official encroachment on private rights."

The question of jurisdiction in the present case is an
issue of law. It does not depend upon any facts. The
question, as Senator McCarran said, depends upon the
existence of State statutes. (94 Cong. Record 11, p. 2314.)
If the State statutes regulate advertising of accident
and health insurance, there is no room for regulation
by the Federal Trade Commission. There is no basis for
suggesting, as the Commission does, that the extent of
regulation by State law cannot be determined at this time
in this proceeding.

The Commission does not deny that such advertising
is regulated by local State law in all States and in the
District of Columbia. However, the Commission refused

to concede the obvious and said appellant "does not show that there is a State regulation of insurance in 48 States." Brief for Appellee, p. 18.

This requires us to include the various statutes in the Appendix to this brief. When Public Law 15 was passed the National Association of State Insurance Commissioners prepared a model code for State regulation. This code, sometimes called the "Model Act," has been adopted with minor variations in 38 States for the purpose, as set forth therein, of regulating "trade practices in the business of insurance in accordance with the intent of Congress" as expressed in Public Law 15. We have chosen the Colorado statute as the example in the Appendix, with citations to the Act as adopted in the other 37 States. There are equivalent State statutes elsewhere.

In Appellant's Opening Brief we discussed the statutes of California (p. 40), Missouri (p. 30), Rhode Island (p. 31), the District of Columbia (p. 31), Montana (p. 32), and Mississippi (p. 33), which has since become a Model Act State. This leaves only the statutes of Alabama, Idaho, Illinois, North Dakota, Oregon and Texas. These other State laws are set forth in the Appendix to this brief. Each of them regulates advertising, including advertising of accident and health insurance. For example, Section 26 of the Alabama statute makes it unlawful for any insurance company doing business in Alabama to issue any circular or statement misrepresenting the terms of any insurance policy.

These State statutes constitute full regulation of insurance advertising (including accident and health insurance) by local law in each State. Further, as pointed out in

Appellant's Opening Brief, pp. 38-45, Fireman's Fund as a California insurance company is regulated by Section 780 of the California insurance code which prohibits Fireman's Fund from causing or permitting any misrepresentation about the terms or benefits of any policy issued by the company. This is a general limitation which follows Fireman's Fund everywhere and applies to all means of communication.

The Commission does not argue that Section 780 of the California insurance code is unconstitutional. Instead, the Commission suggests that citizens of other States should not be "forced to come to a California forum." Brief for Appellee, p. 15. The fallacy of this suggestion is apparent from the fact that Fireman's Fund is licensed to and doing business in every State and in the District of Columbia. (Tr. 10 and 55-56.)

The 38 Model Acts and the other equivalent State statutes would have been unnecessary unless Congress intended to permit State regulation unhampered by Federal legislation relating to interstate commerce except as to boycotts, coercion or intimidation. Public Law 15 was itself unnecessary unless Congress intended to preclude Federal regulation to the extent of regulation by State law.

When we filed Appellant's Opening Brief there were no decisions to the contrary. However, on April 24, 1956, the Commission issued its own first decision on this question. The 3-to-2 decision in the *American Hospital and Life Insurance Company* case seems to go beyond prior concepts of "concurrent jurisdiction" discussed in Appellant's Opening Brief (pp. 24-26) and claims exclu-

sive Federal jurisdiction over all insurance advertising except local advertising by local companies. The majority opinion by Commissioner Kern, the dissenting opinion of Chairman Gwynne and Commissioner Mason, and the additional views of Commissioner Mason are printed in the Appendix to this brief.

We would willingly adopt the dissenting opinion as our brief on this question. It points out the Congressional purpose of Public Law 15 to continue complete State regulation of the business of insurance unhampered by Federal legislation except as to boycotts, coercion or intimidation. The conclusion by the minority of "no concurrent jurisdiction" is amply supported by the very language of Public Law 15, by its legislative history, and by every Federal court decision which has considered its purpose and effect.

The majority opinion, on the other hand, necessarily ignores many of these factors in order to reach the conclusion that Congress intended "concurrent jurisdiction." It ignores *Prudential Insurance Co. v. Benjamin*, 328 U.S. 408 (1946), where the Supreme Court said, at pp. 429-30:

"Obviously, Congress' purpose was broadly to give support to the existing and future state systems for regulating and taxing the business of insurance. This was done in two ways. One was by removing obstructions which might be thought to flow from its own power, whether dormant or exercised, except as otherwise expressly provided in the Act itself or in future legislation. The other was by declaring expressly and affirmatively that continued state regulation and taxation of this business is in the public interest and that the business and all who engage in it 'shall be

subject to' the laws of the several states in these respects."

The majority opinion cites *Maryland Casualty Co. v. Cushing*, 347 U.S. 409 (1954), but ignores the statement on page 413 that the exclusive purpose of Public Law 15 was to counteract any adverse effect that the decision in *U.S. v. South-Eastern Underwriters Association*, 322 U.S. 533 (1944), "might be found to have on State regulation of insurance."

As we pointed out in Appellant's Opening Brief, p. 28, the adverse effect of the decision in *South-Eastern Underwriters* case was to make the business of insurance subject to Federal regulation. This adverse effect would continue unhampered under the theory of "concurrent jurisdiction." Public Law 15 must mean exclusive State jurisdiction to the extent of regulation by State law.

The majority opinion ignores *Wilburn Boat Co. v. Fireman's Fund Insurance Co.*, 348 U.S. 310 (1955), where the Supreme Court said, at page 319:

"* * * In the South-Eastern case, however, all the opinions had emphasized the historical fact that States had always been free to regulate insurance. The measure Congress passed shortly thereafter, known as the McCarran Act, was designed to assure that existing state powers to regulate insurance would continue. Accordingly, the Act contains a broad declaration of congressional policy that the continued regulation of insurance by the States is in the public interest, and that silence on the part of Congress should not be construed to impose any barrier to continued regulation of insurance by the States."

It also ignores *North Little Rock Transportation Co. v. Casualty Reciprocal Exchange*, 8th Cir. 181 F. 2d 174 (1950), where the court said, at p. 176:

“The purpose of the McCarran Act was to permit the States to continue the regulation of the business of insurance, unhampered, to the extent provided by the Act, by Federal legislation relating to interstate commerce. See *Prudential Insurance Co. v. Benjamin*, supra, p. 429 of 328 U.S.”

The majority opinion cites *U.S. v. Sylvanus*, 7th Cir. 192 F. 2d 96 (1951). There is nothing in this case to support the theory of “concurrent jurisdiction.” It is not a Federal Trade Commission case but a mail fraud case which could have arisen before or after the decision in the *South-Eastern Underwriters* case and before or after Public Law 15. Further, as Chairman Gwynne and Commissioner Mason point out in their dissenting opinion, the court in the *Sylvanus* case said, at p. 100:

“It is clear, we think that by this legislation, the Congress established a public policy upon the part of the national government to refrain from interference with the regulation and taxation of insurance companies by the several states.”

The purpose of Public Law 15 to permit the States to continue the regulation of the business of insurance unhampered by Federal legislation does not mean “concurrent jurisdiction.” This is borne out not only by the cases cited above, but by the whole history of the Act and by its very language.

Section 3 of Public Law 15 provided a three-year moratorium during which time there was to be no fed-

eral regulation except as to boycotts, coercion or intimidation. The purpose of the moratorium, as Senator McCarran pointed out, was to give the various States time to enact their own statutes regulating the business of insurance. Conference Report on S. Bill 340, Vol. 91, Part 2, Cong. Rec. p. 1443. This three-year moratorium is totally inconsistent with the idea that Congress meant to establish a system of concurrent jurisdiction. If Congress did not want the Federal Trade Commission to regulate the business of insurance before the various States had an opportunity to pass their own statutes, how can it be said that Congress wanted the Commission to regulate after the States had set up their own schemes of regulation?

The other provisions of Public Law 15 are consistent with this view. Section 1 provides that the continued regulation by the several States of the business of insurance is in the public interest. Section 2(a) provides that the business of insurance and every person engaged therein shall be subject to the laws of the several States which relate to the regulation of such business. Section 2(b) provides that the Federal Trade Commission Act shall be applicable "to the extent that such business is not regulated by State law."

We see nothing in Public Law 15 and certainly nothing in any judicial decision which has considered it suggesting an intent by Congress to establish a system of dual or concurrent regulation. All indications negative such a thought. However, the majority opinion in the *American Hospital* case goes even further by denying that Public Law 15 in any way limits Federal jurisdiction.

The majority opinion asserts that Public Law 15 merely provides "that State authority over *intrastate* insurance business that might affect interstate insurance business could not be disturbed by Federal regulation which did not specifically mention insurance". Appendix, p. 30.

We cannot agree with this interpretation of Public Law 15. Congress knew that modern insurance is not intrastate. Each opinion in the *South-Eastern Underwriters* case pointed out the nationwide character of the business. In fact, the interstate features of insurance were the basis for the decision, which in turn was the basis for Public Law 15.

When the Supreme Court said insurance was interstate commerce (after saying no for nearly 80 years), Congress had several alternatives:

- (1) It might take no action and thereby allow Federal statutes to be imposed on the existing State systems of regulation and taxation; or
- (2) It might adopt a comprehensive plan of Federal regulation, including policy forms, premium rates, and the many other things that mean complete regulation; or
- (3) It might recognize, continue and foster the extensive systems of State regulation which had developed during the years when insurance could not be regulated by the Federal government.

Congress did not do nothing, and did not adopt a plan of Federal regulation. Instead, Congress enacted Public Law 15 which provides that certain statutes administered by the Federal Trade Commission shall be applicable to the business of insurance "to the extent that such

business is not regulated by State law," reserving, however, to the Federal Government the power over boycotts, coercion and intimidation.

If this means that California can regulate advertising by a California company in California but cannot regulate identical advertising in California by a Michigan company, or a Connecticut company, or a New York company, we might as well tear up Public Law 15.

Such an interpretation by the majority opinion in the *American Hospital* case ignores realities. It ignores the fact that the insurance business today necessarily crosses State lines. It suggests that California may regulate advertising by Fireman's Fund or any other California company, but that only the Federal Trade Commission can regulate advertising in California by an out-of-state company. Does this mean that advertising by an out-of-state company is immune to California regulation even though the company is licensed to do business in California and, therefore, subject to California law? We do not believe that Congress intended to make such a revolutionary change in the nationwide system of State regulation over the business of insurance.

There is only one logical answer. Public Law 15 must mean that Congress intended to permit State regulation of insurance, unhampered and unrestricted by Federal legislation under the commerce clause of the Constitution.

If there could have been any doubt that Congress intended State regulation and State taxation to be free of all commerce clause restriction, such doubt was settled by *Prudential Insurance Co. v. Benjamin*, supra,

which upheld Public Law 15 as the basis for a State tax which discriminated against interstate commerce.

The fact that this regulation by a State of advertising within its own borders may affect the business of insurance in other States does not violate the due process clause. The commerce clause discussed above is a grant of power to the Federal government which Congress may use, delegate or ignore. The due process clause, on the other hand, is a restriction on the several States. The Commission cites a portion of the legislative history of Public Law 15 (H.R. No. 143, 79th Congress, 1st Sess.) suggesting that the due process clause prohibits State regulation which might have repercussions in other States. This portion of the legislative history refers to old formulae represented by such cases as *Allgeyer v. Louisiana*, 65 U.S. 578 (1897). However, as pointed out in Appellant's Opening Brief, pp. 43-45, it is now well settled that a State may apply its own law to acts which occur outside of its borders where interests of the State are in some manner affected by these actions. In any event, none of the due process cases (old or new) are relevant to State regulation of advertising within its own borders, for there the acts regulated take place within the regulating State.

Advertising by Fireman's Fund is regulated not only by California law but also by local law in each of the States and in the District of Columbia. This regulation everywhere by State law precludes regulation by the Federal Trade Commission. Therefore, the Commission is acting beyond its jurisdiction and without authority in the present proceeding. The subpoena requiring Mr.

Crafts to produce evidence of advertising everywhere (except in California) should be quashed as were the subpoenas in *Jones v. Securities and Exchange Commission*, supra, and *U.S. v. Minker*, supra. However, if the Commission has some jurisdiction over some type of advertising somewhere, the subpoena should be limited to this jurisdiction and Mr. Crafts should not be required to produce all evidence of all advertising everywhere.

Dated: May 24, 1956.

Respectfully submitted,
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and
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Attorneys for Appellant.

(Appendix Follows.)

Appendix.



Appendix

STATE FAIR TRADE PRACTICES ACT.

COLORADO

UNFAIR METHODS OF COMPETITION

72-15-1. *Purpose of article.* The purpose of this article is to regulate trade practices in the business of insurance in accordance with the intent of congress as expressed in the act of congress of March 9, 1945 (Public Law 15, 79th Congress), by defining, or providing for the determination of, all such practices in this state which constitute unfair methods of competition or unfair or deceptive acts or practices and by prohibiting the trade practices so defined or determined.

72-15-2. *Definitions.* When used in this article:

(1) "Person" shall mean any individual, corporation, association, partnership, reciprocal exchange, interinsurer, Lloyds insurer, fraternal benefit society, and any other legal entity engaged in the business of insurance, including agents, brokers and adjusters.

(2) "Commissioner" shall mean the commissioner of insurance of the state.

72-15-3. *Unfair methods prohibited.* No person shall engage in this state in any trade practice which is defined in this article, as, or determined pursuant to this article to be, an unfair method of competition or an unfair or deceptive act or practice in the business of insurance.

72-15-4. *Unfair methods defined.* The following are hereby defined as unfair methods of competition and unfair and deceptive acts or practices in the business of insurance:

(1) Making, issuing, circulating, or causing to be made, issued or circulated, any estimate, illustration, circular or statement misrepresenting the terms of any policy issued or to be issued or the benefits or advantages promised thereby or the dividends or share of the surplus to be received thereon, or making any false or misleading statement as to the dividends or share of surplus previously paid on similar policies, or making any misleading representation or any misrepresentations as to the financial condition of any insurer, or as to the legal reserve system upon which any life insurer operates, or using any name or title of any policy or class of policies misrepresenting the true nature thereof, or making any misrepresentation to any policyholder insured in any company for the purpose of inducing or tending to induce such policyholder to lapse, forfeit, or surrender his insurance.

(2) Making, publishing, disseminating, circulating, or placing before the public or causing, directly or indirectly, to be made, published, disseminated, circulated, or placed before the public, in a newspaper, magazine or other publication, or in the form of a notice, circular, pamphlet, letter or poster, or over any radio station, or in any other way, an advertisement, announcement or statement containing any assertion, representation or statement with respect to the business of insurance or with respect to any person in the conduct of his insurance business, which is untrue, deceptive or misleading.

(3) Making, publishing, disseminating, or circulating, directly or indirectly, or aiding, abetting or encouraging the making, publishing, disseminating or circulating of any oral or written statement or any pamphlet, circular, article

or literature which is false, or maliciously critical or derogatory to the financial condition of an insurer, and which is calculated to injure any person engaged in the business of insurance.

(4) Entering into any agreement to commit, or by any concerted action committing, any act of boycott, coercion or intimidation resulting in or tending to result in unreasonable restraint of, or monopoly in, the business of insurance.

(5) Filing with any supervisory or other public official, or making, publishing, disseminating, circulating or delivering to any person, or placing before the public, or causing directly or indirectly, to be made, published, disseminated, circulated, delivered to any person, or placed before the public, any false statement of financial condition of an insurer with intent to deceive.

Making any false entry in any book, report or statement of any insurer with intent to deceive any agent or examiner lawfully appointed to examine into its condition or into any of its affairs, or any public official to whom such insurer is required by law to report, or who has authority by law to examine into its condition or into any of its affairs, or, with like intent, willfully omitting to make a true entry of any material fact pertaining to the business of such insurer in any book, report or statement of such insurer.

(6) Issuing or delivering or permitting agents, officers, or employees to issue or deliver, agency company stock or other capital stock, or benefit certificates or shares in any common law corporation, or securities or any special or advisory board contracts or other contracts of any kind promising returns and profits as an inducement to insurance.

(7) (a) Making or permitting any unfair discrimination between individuals of the same class and equal expectation of life in the rates charged for any contract of life insurance or of life annuity or in the dividends or other benefits payable thereon, or in any other of the terms and conditions of such contract.

(b) Making or permitting any unfair discrimination between individuals of the same class and of essentially the same hazard in the amount of premium, policy fees, or rates charged for any policy or contract of accident or health insurance or in the benefits payable thereunder, or in any of the terms or conditions of such contract, or in any other manner whatever.

(8) (a) Except as otherwise expressly provided by law, knowingly permitting or offering to make or making any contract of life insurance, life annuity or accident and health insurance, or agreement as to such contract other than as plainly expressed in the contract issued thereon, or paying or allowing, or giving or offering to pay, allow, or give, directly or indirectly, as inducement to such insurance, or annuity, any rebate of premiums payable on the contract, or any special favor or advantage in the dividends or other benefits thereon, or any valuable considerations or inducement whatever not specified in the contract; or giving, or selling, or purchasing or offering to give, sell, or purchase as inducement to such insurance or annuity or in connection therewith, any stocks, bonds or other securities of any insurance company or other corporation, association, or partnership, or any dividends or profits accrued thereon, or anything of value whatsoever not specified in the contract.

(b) Nothing in subsection (7) or paragraph (a) of subsection (8) of this section shall be construed as including

within the definition of discrimination or rebates any of the following practices: in the case of any contract of life insurance or life annuity, paying bonuses to policyholders or otherwise abating their premiums in whole or in part out of the surplus accumulated from nonparticipating insurance, provided that any such bonuses or abatement of premiums shall be fair and equitable to policyholders and for the best interests of the company and its policyholders; in the case of life insurance policies issued on the industrial debit plan, making allowance to policyholders who have continuously for a specified period made premium payments directly to an office of the insurer in an amount which fairly represents the saving in collection expense; readjustment of the rate of premium for a group insurance policy based on the loss or expense experience thereunder, at the end of the first or any subsequent policy year of insurance thereunder, which may be made retroactive only for such policy year.

72-15-5. *Power of commissioner.* The commissioner shall have power to examine and investigate into the affairs of every person engaged in the business of insurance in this state in order to determine whether such person has been or is engaged in any unfair method of competition or in any unfair or deceptive act or practice prohibited by section 72-15-3.

72-15-6. *Hearings—witnesses—service.* (1) Whenever the commissioner shall have reason to believe that any such person has been engaged or is engaging in this state in any unfair method of competition or any unfair or deceptive act or practice defined in section 72-15-4, and that a proceeding by him in respect thereto would be to the interest of the public, he shall issue and serve upon such person a state-

ment of the charges in that respect and a notice of a hearing thereon to be held at a time and place fixed in the notice which shall not be less than twenty days after the date of the service thereof.

(2) At the time and place fixed for such hearing, such person shall have an opportunity to be heard and to show cause why an order should not be made by the commissioner requiring such person to cease and desist from the acts, methods or practices so complained of. Upon good cause shown, the commissioner shall permit any person to intervene, appear and be heard at such hearing by counsel or in person.

(3) Nothing contained in this article shall require the observance at any such hearing of formal rules of pleading or evidence.

(4) The commissioner, upon such hearing, may administer oaths, examine and cross-examine witnesses, receive oral and documentary evidence, and shall have the power to subpoena witnesses, compel their attendance, and require the production of books, papers, records, correspondence, or other documents which he deems relevant to the inquiry. The commissioner, upon such hearing, may, and upon the request of any party, shall cause to be made a stenographic record of all the evidence and all the proceedings had at such hearings. If no stenographic record is made and if a judicial review is sought, the commissioner shall prepare a statement of the evidence and proceedings for use on review. In case of a refusal of any person to comply with any subpoena issued hereunder or to testify with respect to any matter concerning which he may be lawfully interrogated, the district court of the city and county of Denver or the

county where such party resides, on application of the commissioner, may issue an order requiring such person to comply with such subpoena and to testify; and any failure to obey any such order of the court may be punished by the court as a contempt thereof.

(5) Statements of charges, notices, orders, and other processes of the commissioner under this article may be served by anyone duly authorized by the commissioner, either in the manner provided by law for service of process in civil actions, or by registering and mailing a copy thereof to the person affected by such statement, notice, order or other process at his or its residence or principal office or place of business. The verified return by the person so serving such statement, notice, order, or other process, setting forth the manner of such service, shall be proof of the same, and the return postcard receipt for such statement, notice, order or other process, registered and mailed as aforesaid, shall be proof of the service of the same.

72-15-7. *Cease and desist orders.* (1) If, after such hearing, the commissioner shall determine that the method of competition or the act or practice in question is defined in section 72-15-4 and that the person complained of has engaged in such method or competition, act or practice in violation of this article, he shall reduce his findings to writing and shall issue and cause to be served upon the person charged with the violation an order requiring such person to cease and desist from engaging in such method of competition, act, or practice.

(2) Until the expiration of the time allowed under subsection (1) of section 72-15-8 of this article for filing a petition for review, by appeal or writ of certiorari, if no no

(sic) such petition has been duly filed within such time or, if a petition for review has been filed within such time, then until the transcript of the record in the proceeding has been filed in the district court, the commissioner at any time, upon such notice, and in such manner as he shall deem proper, may modify or set aside in whole or in part any order issued by him under this section.

(3) After the expiration of the time allowed for filing such a petition for review if no such petition has been duly filed within such time, the commissioner at any time, after notice and opportunity for hearing, may reopen and alter, modify or set aside, in whole or in part, any order issued by him under this section whenever in his opinion conditions of fact or of law have so changed as to require such action or if the public interest shall so require.

72-15-8. *Judicial review of orders.* (1) Any person required by an order of the commissioner under section 72-15-7 to cease and desist from engaging in any unfair method of competition or any unfair or deceptive act or practice defined in section 72-15-4 may obtain a review of such order by filing in the district court of the city and county of Denver within fifteen days from the date of the service of such order, a written petition praying that the order of the commissioner be set aside. A copy of such petition shall be forthwith served upon the commissioner, and thereupon the commissioner forthwith shall certify and file in such court a transcript of the entire record in the proceeding, including all the evidence taken and the report and order of the commissioner. Upon such filing of the petition and transcript such court shall have jurisdiction of the proceeding and of the question determined therein, shall determine whether the filing of such petition shall operate as a stay

of such order of the commissioner and shall have power to make and enter upon the pleadings, evidence, and proceedings set forth in such transcript a decree modifying, affirming or reversing the order of the commissioner, in whole or in part. The findings of the commissioner as to the facts, if supported by the evidence, shall be conclusive.

(2) To the extent that the order of the commissioner is affirmed, the court shall thereupon issue its own order commanding obedience to the terms of such order of the commissioner. If either party shall apply to the court for leave to adduce additional evidence, and shall show to the satisfaction of the court that such additional evidence is material and that there were reasonable grounds for the failure to adduce such evidence in the proceeding before the commissioner, the court may order such additional evidence to be taken before the commissioner and to be adduced upon the hearing in such manner and upon such terms and conditions as to the court may seem proper. The commissioner may modify his findings of fact, or make new findings by reason of the additional evidence so taken, and he shall file such modified or new findings which, if supported by additional evidence shall be conclusive, and his recommendation, if any, for the modification or setting aside of his original order, with the return of such additional evidence.

(3) A cease and desist order issued by the commissioner under section 72-15-7 shall become final:

(a) Upon the expiration of the time allowed for filing a petition for review if no such petition has been duly filed within such time; except that the commissioner may thereafter modify or set aside his order to the extent provided in subsection (2) of section 72-15-7; or

(b) Upon the final decision of the court if the court directs that the order of the commissioner be affirmed or the petition for review dismissed.

(4) No order of the commissioner under this article or order of a court to enforce the same shall in any way relieve or absolve any person affected by such order from any liability under any other laws of this state.

72-15-9. *Procedure as to unfair methods not defined.* (1) Whenever the commissioner shall have reason to believe that any person engaged in the business of insurance is engaging in this state in any method of competition or in any act or practice in the conduct of such business which is not defined in section 72-15-4, that such method of competition is unfair or that such act or practice is unfair or deceptive and that a proceeding by him in respect thereto would be to the interest of the public, he may issue and serve upon such person a statement of the charges in that respect and a notice of a hearing thereon to be held at a time and place fixed in the notice, which shall not be less than twenty days after the date of the service thereof. Each such hearing shall be conducted in the same manner as the hearings provided for in section 72-15-6. The commissioner, after such hearing, shall make a report in writing in which he shall state his findings as to the facts, and he shall serve a copy thereof upon such persons.

(2) If such report charges a violation of this article and if such method of competition, act or practice has not been discontinued, the commissioner may, through the attorney general of this state, at any time after fifteen days after the service of such report cause a petition to be filed in the district court of this state within the district wherein the person resides or has his principal place of business, to en-

join and restrain such person from engaging in such method, act or practice. The court shall have jurisdiction of the proceeding and shall have power to make and enter appropriate orders in connection therewith and to issue such writs as are ancillary to its jurisdiction or are necessary in its judgment to prevent injury to the public pendente lite.

(3) A transcript of the proceedings before the commissioner including all evidence taken and the report and findings shall be filed with such petition. If either party shall apply to the court for leave to adduce additional evidence and shall show to the satisfaction of the court that such additional evidence is material and there were reasonable grounds for the failure to adduce such evidence in the proceeding before the commissioner the court may order such additional evidence to be taken before the commissioner and to be adduced upon the hearing in such manner and upon such terms and conditions as to the court may seem proper. The commissioner may modify his findings of fact or make new findings by reason of the additional evidence so taken, and he shall file such modified or new findings with the return of such additional evidence.

(4) If the court finds that the method of competition complained of is unfair or that the act or practice complained of is unfair or deceptive, that the proceeding by the commissioner with respect thereto is to the interest of the public and that the findings of the commissioner are supported by the weight of the evidence, it shall issue its order enjoining and restraining the continuance of such method of competition, act or practice.

72-15-10. *Judicial review by intervenor.* If the report of the commissioner does not charge a violation of this article, then any intervenor in the proceedings, within fifteen

days after the service of such report, may cause a notice of appeal to be filed in the district court of the city and County of Denver for a review of such report. Upon such review, the court shall have authority to issue appropriate orders and decrees in connection therewith, including, if the court finds that it is to the interest of the public, orders enjoining and restraining the continuance of any method of competition, act or practice which it finds, notwithstanding such report of the commissioner, constitutes a violation of this article.

72-15-11. *Penalty for violation of cease and desist order.* If after a period of ten days after a cease and desist order has been issued, the person against whom said order has been issued continues to violate the same, the commissioner upon satisfactory proof of said continued violation may suspend said person's license pending final settlement of said action. If upon final determination, provided the order of the commissioner is sustained, either by the appellate court or by default, the cease and desist order continues to be violated, such person's licenses may be revoked by order of the commissioner or the court to which the order has been appealed. Nothing in this section shall be construed as limiting a court in enforcing its own orders.

72-15-12. *Provisions additional to existing law.* The powers vested in the commissioner by this article shall be additional to any other powers to enforce any penalties, fines or forfeitures authorized by law with respect to the methods, acts and practices hereby declared to be unfair or deceptive.

72-15-13. *Immunity from prosecution.* If any person shall ask to be excused from attending and testifying or from producing any books, papers, records, correspondence

or other documents at any hearing on the ground that the testimony or evidence required of him may tend to incriminate him or subject him to a penalty or forfeiture, and notwithstanding shall be directed to give such testimony or produce such evidence, he must none the less comply with such direction; but he shall not thereafter be prosecuted or subjected to any penalty or forfeiture for or on account of any transaction, matter or thing concerning which he may testify or produce evidence pursuant thereto; and no testimony so given or evidence produced shall be received against him upon any criminal action, investigation or proceeding. No such individual so testifying shall be exempt from prosecution or punishment for any perjury committed by him while so testifying and the testimony or evidence so given or produced shall be admissible against him upon any criminal action, investigation or proceeding concerning such perjury, nor shall he be exempt from the refusal, revocation or suspension of any license, permission or authority conferred, or to be conferred, pursuant to the insurance law of this state. Any such individual may execute, acknowledge and file in the office of the commissioner a statement expressly waiving such immunity or privilege in respect to any transaction, matter or thing specified in such statement and thereupon the testimony of such person or such evidence in relation to such transaction, matter or thing may be received or produced before any judge or justice, court, tribunal, grand jury or otherwise, and if so received or produced such individual shall not be entitled to any immunity or privilege on account of any testimony he may so give or evidence so produced.

**CITATIONS TO STATE FAIR TRADE PRACTICES ACT
(MODEL ACT).**

1. Arizona: Arizona Code, Insurance, Secs. 61-3301 to 61-3318 (Laws 1954, Ch. 64, Art. 21).
2. Arkansas: Arkansas Stats. Anno., Insurance, Secs. 66-1701 to 66-1713 (Acts 1949, No. 303).
3. Colorado: Colorado Revised Stats., Insurance, Secs. 72-15-1 to 72-15-13 (L. 49, pp. 475-483; CSA, C. 87).
4. Connecticut: Gen. Stats., 1955 Supp., Insurance, Secs. 2816d to 2821d.
5. Delaware: Senate Bill 347, effective date June 13, 1955.
6. Florida: Florida Stats., Anno. Insurance, Secs. 643.01 to 643.13 (Laws 1947, C. 24202).
7. Georgia: Georgia Code, Insurance, Secs. 56-401a to 56-413a (Laws 1950, No. 748).
8. Indiana: Burns Indiana Stats., Insurance, Secs. 39-5301 to 39-5318 (Acts 1947, Ch. 112).
9. Iowa: Iowa Acts 1955, Ch. 237.
10. Kansas: Kansas General Stats., Insurance, Secs. 40-2401 to 40-2414 (L. 1955, Ch. 247).
11. Kentucky: Kentucky Rev. Stats., Insurance, Secs. 304.924 to 304.945 (L. 1950, C. 21).
12. Louisiana: Louisiana Rev. Stats., Insurance, Secs. 22:1211 to 22:1217 (Acts 1948, No. 195).
13. Maine: Rev. Stats of Maine, Insurance, C. 60, Secs. 146-158 (L. 1949, C. 319).
14. Maryland: Anno. Code of Maryland, Insurance, Art. 48A, Secs. 321-335 (L. 1947, Ch. 757).

15. Massachusetts: Anno. Laws of Massachusetts, C. 176D, Secs. 1 to 14 (L. 1947, Ch. 659).
16. Michigan: Michigan Stats. Anno., Insurance, Secs. 24.567 (71) to 24.567 (85) (Pub. Acts. 1949, No. 228).
17. Minnesota: Minnesota Stats. Anno., Insurance, Secs. 72.20 to 72.33 (Laws 1947, C. 129).
18. Mississippi: House Bill 145, effective date February 29, 1956.
19. Nebraska: Rev. Stats. of Nebraska, Insurance, Secs. 44-1501 to 44-1521 (Laws 1947, C. 170).
20. Nevada: Nevada Compiled Laws, Insurance, Secs. 3656.48a to 3656.48i (Stats. 1949, 430).
21. New Hampshire: New Hampshire Rev. Stats. Anno., Secs. 417:1 to 417:17 (L. 1947, 189).
22. New Jersey: New Jersey Stats. Anno., Corporations and Institutions for Finance and Insurance, Secs. 17:29B-1 to 17:29B-14 (L. 1947, C. 379).
23. New Mexico: New Mexico Stats., 1953, Insurance, 58-9-9 to 58-9-18 (Laws 1947, Ch. 127).
24. New York: McKinney's Consol. Laws of New York, Insurance Law, Bk. 27, Secs. 270-282 (L. 1948, C. 501).
25. North Carolina: Gen. Stats. of North Carolina, Secs. 58-54.1 to 58-54.13 (L. 1949, Ch. 1112).
26. Ohio: Page's Ohio Rev. Code, Insurance, Secs. 3901.19-3901.23 (126 Ohio Laws Volume, Senate Bill 385 (1955)).
27. Oklahoma: Oklahoma Stats. Anno., Insurance, Tit. 36, Secs. 117.1-117.14 (Laws 1955, p. 218 et seq.).

28. Pennsylvania: Purdon's Pennsylvania Stats. Anno., Insurance, Tit. 40, Secs. 1151-1162 (1947, June 5, P.L. 445).
29. South Carolina: Code of Laws of South Carolina, Insurance, Secs. 37-1201 to 37-1223 (1947 (45) 322).
30. South Dakota: South Dakota Code, Insurance, Secs. 31-11A01 to 31-11A08 (Session Laws 1947, Ch. 144).
31. Tennessee: Williams' Tennessee Code Anno., Trade and Commerce, Secs. 6459.56 to 6459.69 (L. 1947, Ch. 202).
32. Utah: Utah Code Anno., Insurance, Secs. 31-27-1 to 31-27-22 (L. 1947, Ch. 63).
33. Vermont: Public Acts 1955, No. 174.
34. Virginia: Code of Virginia, Insurance, Secs. 38.1-49 to 38.1-57 (L. 1952, C. 317).
35. Washington: Rev. Code of Washington, Insurance, Secs. 48.30.010 to 48.30.250 (L. 1947, C. 79).
36. West Virginia: West Virginia Code of 1955, Insurance and Annuity Contracts, Secs. 3472(68) to 3472(82) (L. 1955, C. 96).
37. Wisconsin: Wisconsin Stats. Ch. 207, Secs. 207.01 to 207.14 (L. 1947, Ch. 520).
38. Wyoming: Wyoming Compiled Stats., Insurance, Secs. 52.1501 to 52.1512 (Approved March 1, 1955).

ALABAMA

CODE OF ALABAMA, INSURANCE, TIT. 28

§26. *Unlawful to issue statement misrepresenting terms of any policy, etc.* No insurance company doing business in this State and no officer, director or agent thereof shall issue

or circulate or cause or permit to be issued or circulated, any estimate, illustration, circular or statement of any sort misrepresenting the terms of any policy issued by it or the benefits or advantages promised thereby, or the dividends or shares of surplus to be received thereon, or shall use any name or title of any policy or class of policies misrepresenting the true nature thereof. Nor shall any such company, agent or broker make any misrepresentation to any person insured in such company or in any other company for the purpose of inducing or tending to induce any person to lapse, forfeit or surrender his insurance, policy or contract. (1909, p. 111; 1936-37, Ex. Sess., p. 266.)

§28. *Violation misdemeanor.* Violation of the two preceding sections by an agent or officer of any insurance company, shall be a misdemeanor and punished by a fine not less than one hundred nor more than five hundred dollars, or imprisonment in the county jail for thirty days, or by both such fine and imprisonment; and if a company violates or participates in such violation, such company shall have its certificate of authority to do business in this state suspended for a period not exceeding one year. (1909, p. 111.)

IDAHO

IDAHO CODE, INSURANCE

41-1204. *Misrepresentations prohibited.* No insurance company, association or society, or any officer, director, agent, broker or solicitor thereof, or any other person, shall issue, circulate or use, or cause or permit to be issued, circulated or used, any written or oral statement or circular misrepresenting the terms of any policy issued or to be issued by such company, or misrepresent the benefits or

privileges promised under any such policy, or the dividend or share of the surplus to be received thereon. (1913, ch. 97.)

41-1206. *Penalty for misrepresentation and twisting*
Any insurance company, association or society, agent, broker or solicitor, or any person, firm, association or corporation, violating the provisions of the two preceding sections, shall be guilty of a misdemeanor, and upon conviction thereof shall be punished by a fine of not more than \$100.00, or imprisonment in the county jail for not more than six months, or by both such fine and imprisonment, for each such violation.

The department of insurance shall have authority, in its discretion, to revoke the license theretofore issued to any company, association, society, agent or broker, convicted of a violation of the provisions of the two preceding sections. (1913, Ch. 97.)

ILLINOIS

JONES' ILLINOIS STATS. ANNO. (1939 REV. VOL.), INSURANCE

66.824 §149. *Misrepresentation and Defamation Prohibited.* (1) No company doing business in this State, and no officer, director, agent, clerk or employee thereof, broker, or any other person, shall make, issue or circulate or cause or knowingly permit to be made, issued or circulated any estimate, illustration, circular, or verbal or written statement of any sort misrepresenting the terms of any policy issued or to be issued by it or any other company or the benefits or advantages promised thereby or any misleading estimate of the dividends or share of the surplus to be received thereon, or shall by the use of any name or title of any policy or class of policies misrepresent the nature thereof.

(2) No such company or officer, director, agent, clerk or employee thereof, or broker shall make any misleading representation or comparison of companies or policies, to any person insured in any company for the purpose of inducing or tending to induce a policyholder in any company to lapse, forfeit, change or surrender his insurance, whether on a temporary or permanent plan.

(3) No such company, officer, director, agent, clerk or employee thereof, broker or other person shall make, issue or circulate or cause or knowingly permit to be made, issued or circulated any pamphlet, circular, article, literature or verbal or written statement of any kind which contains any false or malicious statement calculated to injure any company doing business in this State in its reputation or business.

(4) Any company, officer, director, agent, clerk or employee thereof, broker, or other person who violates any of the provisions of this section, or knowingly participates in or abets such violation, shall be required to pay a penalty of not less than one hundred dollars, nor more than one thousand dollars, to be recovered in the name of the People of the State of Illinois by the State's Attorney of the county in which the violation occurs and the penalty so recovered shall be paid into the county treasury.

(5) No company shall be held guilty of having violated any of the provisions of this section by reason of the act of any agent, solicitor or employee, not an officer, director or department head thereof, unless an officer, director or department head of such company shall have knowingly permitted such act or shall have had prior knowledge thereof.
(Sec. 761, Ch. 73, Ill. Code.)

NORTH DAKOTA

NORTH DAKOTA REV. CODE OF 1943, INSURANCE

26-1011. *Misrepresentation of Terms of Policy and Future Dividends Prohibited.* No life, health, or accident insurance company doing business in this state, and no officer, director, agent, or solicitor of any life, health, or accident insurance company, shall issue, circulate, or use, or cause or permit to be issued, circulated, or used, any written or oral statement or circular misrepresenting the terms of any policy issued or to be issued by such company, or the benefits or advantages promised thereby, or make an estimate, with intent to deceive, of the future dividends or shares of surplus payable under such policy, or use any name or title of any policy or class of policies misrepresenting the true nature thereof.

26-1013. *Revocation or Suspension of Agent's License for Misrepresentation or Discrimination; Appeal.* Upon satisfactory evidence of the violation of any of the provisions of this chapter relating to misrepresentation or discrimination by any agent or solicitor of any life, health, or accident insurance company, the commissioner of insurance shall suspend or revoke the license of such offending solicitor or agent, and he may refuse to issue a new license to the offending agent or solicitor for a period of not to exceed one year thereafter. When a license shall be refused, suspended, or revoked, the party aggrieved may appeal to the district court of Burleigh county.

26-1014. *Penalty for Violating Provisions Relating to Misrepresentation and Discrimination.* Any officer, agent, solicitor, or representative of any life, health, or accident company or association, or any other person, who shall vio

ate any of the provisions of sections 26-1009, 26-1010, 26-1011, 26-1012, or 26-1013 shall be guilty of a misdemeanor and shall be punished by a fine of not more than five hundred dollars, or by imprisonment in the county jail for not more than six months, or by both such fine and imprisonment, for each such violation. Any life, health, or accident insurance company found guilty of a violation of the provisions of sections 26-1009 or 26-1010 by the commissioner of insurance upon a hearing, after fifteen days' notice, shall be subject to a penalty, not exceeding five hundred dollars, to be imposed by the commissioner. Upon default of the payment of such penalty, the commissioner may revoke the license of the offending company. Upon a second conviction before the commissioner upon a similar hearing, the commissioner of insurance shall revoke the license to transact business in this state of the offending company.

OREGON

OREGON REV. STATS.

736.608. *Prohibition against untrue or deceptive advertising.* (1) No insurance company or agent, or attorney as defined in ORS 749.010 shall make, publish, disseminate, circulate, or place before the public, or cause, directly or indirectly, to be made, published, disseminated, circulated, or placed before the public, in a newspaper, magazine or other publication, or in the form of a notice, circular, pamphlet, letter or poster, or over any radio station, or in any other way, an advertisement, announcement or statement containing any assertion, representation or statement with respect to the business of insurance or with respect to any person in the conduct of his insurance business, which is untrue, deceptive or misleading.

(2) Whenever the commissioner has knowledge of any violation of this section, he forthwith shall order such offending company, or agent, or attorney as defined in ORS 749.010 to discontinue immediately such practice or show cause to the satisfaction of the commissioner why such order should not be complied with.

(3) If such order is not complied with within 30 days of its receipt, the commissioner shall, as provided in ORS 737.550, revoke the license or certificate of authority of such offending company or agent, or attorney as defined in ORS 749.010. No renewal of a license or certificate of authority revoked pursuant to this subsection shall be granted within three years from the date of the revocation. (Laws, 1955, Ch. 500.)

TEXAS

VERNON'S PENAL CODE OF THE STATE OF TEXAS

Art. 580b. *Misrepresentation as to terms of insurance policy.*

Section 1. No Life, Health or Casualty Insurance Corporation including corporations operating on the cooperative or assessment plan, Mutual Insurance Companies, and Fraternal Benefit Associations or Societies, and any other societies or associations authorized to issue insurance policies in this State, and no officer, director, representative or agent therefor or thereof, or any other person, corporation or co-partnership, shall issue or circulate or cause or permit to be issued for circulation, any illustrated circular or statement of any sort, misrepresenting the terms of any policy issued by any such corporation or association or any certificate of membership issued by any such society or corpora

ion, or other benefits or advantages permitted thereby, or any misleading statement of the dividends or share of surplus to be received thereon, or shall use any name or title of any policy or class of policies, or certificates of membership or class of such certificate, misrepresenting the true nature thereof. Nor shall any such corporation, society or association, or officer, director, agent or representative hereof, or any other person, make any misleading representations or incomplete comparisons of policies or certificates of membership to any person insured in such corporation, association or society, or member thereof, for the purpose of inducing or tending to induce, such person to lapse, forfeit or surrender his said insurance or membership therein.

Sec. 2. If any person shall violate any of the provisions of Section 1 hereof, he shall be guilty of a misdemeanor, and, upon conviction, shall be fined in a sum not less than Twenty-five (\$25.00) Dollars nor more than Five Hundred (\$500.00) Dollars, or be imprisoned in the county jail not more than sixty (60) days, or by both such fine and imprisonment.

Sec. 3. The Commissioner of Insurance,¹ upon giving five (5) days' notice by registered mail, and upon hearing had for that purpose, may forfeit the charter, permit or license to do business of any society, association or corporation violating the provisions hereof, and may forfeit likewise the certificate of any person to write such insurance, where a certificate is required by law. (Acts 1931, Ch. 332.)

¹Now Board of Insurance Commissioners—see V.A.T.S. Insurance, art. 1.02.

UNITED STATES OF AMERICA
BEFORE FEDERAL TRADE COMMISSION

Commissioners:

John W. Gwynne, Chairman
Lowell B. Mason
Robert T. Secrest
Sigurd Anderson
William C. Kern

In the Matter of
THE AMERICAN HOSPITAL AND LIFE
INSURANCE COMPANY, a corporation.

Docket No

OPINION OF THE COMMISSION

By Kern, Commissioner:

Counsel in support of the complaint issued in this proceeding has appealed from the hearing examiner's initial decision, in which, after holding that Public Law 15 of the 79th Congress (McCarran-Ferguson Insurance Regulation Act)¹ limits the Federal Trade Commission's jurisdiction herein to respondent's activities in the State of Mississippi, he dismissed the complaint for failure of proof.

Respondent, a Texas corporation, is licensed to conduct and does conduct, a health-and-accident insurance business in Arizona, Arkansas, Colorado, Illinois, Indiana, Kansas, Kentucky, Louisiana, Mississippi, Missouri, New Mexico, Oklahoma, Tennessee, and Texas. It sells its health-and-accident insurance policies exclusively through licensed agents in each of those States, and its only advertising consists

¹59 Stat. 33 (1945); 15 U. S. C. 1011ff.

printed brochures, which it mails from its home office in San Antonio, Texas, to its agents in other States for display or distribution to prospective policyholders in the course of sales interviews. Applications secured by respondent's agents in States other than Texas are mailed to respondent's home office, where the policies are issued and mailed to the agents for delivery to the new policyholders. The complaint alleged that respondent's advertising contains various false, misleading and deceptive representations in violation of the Federal Trade Commission Act. Respondent maintains that all States in which it carries on its operations have laws that forbid it or its agents to make misrepresentations in the course of selling its insurance and that under the McCarran-Ferguson Act this is sufficient to remove it from the scope of the Federal Trade Commission Act.

Thus at the threshold of our consideration of this appeal we face an important jurisdictional question. The basis of the hearing examiner's holding that the Commission's jurisdiction extends to respondent's transactions in Mississippi alone is that each of the other States where it advertises or sells its insurance policies (saving from consideration respondent's home State of Texas, inasmuch as jurisdiction has not been asserted over respondent's business transacted wholly within that State) fully regulates the business of insurance by legislative enactment and that to the extent such regulation exists our jurisdiction has been withdrawn by the McCarran-Ferguson Act.

That statute² directly and expressly provides that after

²The McCarran-Ferguson Act reads in full text as follows:

An Act to express the intent of the Congress with reference to the regulation of the business of insurance.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the Congress

January 1, 1948, the Federal Trade Commission Act shall apply to the business of insurance "to the extent that such business is not regulated by State law." In the judgment of the examiner, the Commission's jurisdiction over the

hereby declares that the continued regulation and taxation by the several States of the business of insurance is in the public interest, and that silence on the part of the Congress shall not be construed to impose any barrier to the regulation or taxation of such business by the several States.

Sec. 2. (a) The business of insurance, and every person engaged therein, shall be subject to the laws of the several States which relate to the regulation or taxation of such business.

(b) No Act of Congress shall be construed to invalidate, impair, or supersede any law enacted by any State for the purpose of regulating the business of insurance, or which imposes a fee or tax upon such business, unless such Act specifically relates to the business of insurance: *Provided*, That after June 30, 1948, the Act of July 2, 1890, as amended, known as the Sherman Act, and the Act of October 15, 1914, as amended, known as the Clayton Act, and the Act of September 26, 1914, known as the Federal Trade Commission Act, as amended, shall be applicable to the business of insurance to the extent that such business is not regulated by State law.

Sec. 3. (a) Until June 30, 1948, the Act of July 2, 1890, as amended, known as the Sherman Act, and the Act of October 15, 1914, as amended, known as the Clayton Act, and the Act of September 26, 1914, known as the Federal Trade Commission Act, as amended, and the Act of June 19, 1936, known as the Robinson-Patman Antidiscrimination Act, shall not apply to the business of insurance or to acts in the conduct thereof.

(b) Nothing contained in this Act shall render the said Sherman Act inapplicable to any agreement to boycott, coerce, or intimidate, or act of boycott, coercion, or intimidation.

Sec. 4. Nothing contained in this Act shall be construed to affect in any manner the application to the business of insurance of the Act of July 5, 1935, as amended, known as the National Labor Relations Act, or the Act of June 25, 1938, as amended, known as the Fair Labor Standards Act of 1938, or the Act of June 5, 1920, known as the Merchant Marine Act, 1920.

Sec. 5. As used in this Act, the term "State" includes the several States, Alaska, Hawaii, Puerto Rico, and the District of Columbia.

Sec. 6. If any provision of this Act, or the application of such provision to any person or circumstances, shall be held invalid, the remainder of the Act, and the application of such provision to persons or circumstances other than those as to which it is held invalid, shall not be affected.

commercial activities of insurance companies is contingent upon an absence of State regulatory legislation. Implicit in that view is the proposition that the sum of jurisdiction—State and Federal—over commerce is no more than the aggregate of the several State jurisdictions. We need scarcely point out that such a concept not only neglects the exclusive Federal jurisdiction over commerce *among* the States, conferred by Section 3 of Article I of the Constitution of the United States, but is inconsistent with the fundamental constitutional doctrine of the separation of State and Federal powers.

We do not think that the McCarran-Ferguson Act, considered solely by its terms or along with its legislative history and judicial interpretation, admits of such a construction.

In *United States v. South-Eastern Underwriters Assn.*, 322 U. S. 533 (1944), the Supreme Court in effect overturned *Paul v. Virginia*, 75 U. S. 168 (1868), and the line of related cases, all of which were bottomed on the principle that contracts of insurance are not commerce, either interstate or *intrastate*, and declared that the conduct of fire insurance business across State lines is “Commerce among the several States” and accordingly a conspiracy to monopolize interstate trade and commerce in that business violates the Sherman Antitrust Act. At the same time the Court pointed out that, for constitutional purposes, certain activities of a business may be *intrastate* and hence subject to State control, while other activities of the same business may be interstate and subject to Federal regulation. However, the Court did not attempt to decide which State laws were applicable to the business of insurance and to what

extent they were not applicable. A local insurance company which sold only within the State was clearly subject to the State laws, but the extent to which a company doing an interstate business was subject to State laws was not made clear.

The McCarran-Ferguson Act was enacted the year following *South-Eastern Underwriters*. Its title states that it is an act to express the intent of Congress with reference to the regulation of the business of insurance. The title does not suggest that Congress was undertaking to give any additional jurisdiction to the States or to take any away; it indicates rather an intent to avoid any ambiguity arising out of the Congressional silence. It appears that the McCarran-Ferguson Act was designed to permit the States to regulate, *in the traditional manner*, the business of insurance. It was not designed to permit insurance companies to secure new business by false or misleading advertising in interstate commerce, nor was it intended as an abdication of Federal jurisdiction under the Sherman, Clayton, and Federal Trade Commission Acts over the business of insurance. Had Congress desired to remove the business of insurance from the scope of these laws, it could have done so by simply providing that for the purpose of those statutes the business of insurance across State lines should not be deemed to be "Commerce among the several States." Quite to the contrary, it expressly applied those laws to the business of insurance within certain limits.³

³The original version of the McCarran-Ferguson Act, as reported by the committees of the respective Houses of Congress, provided flatly that neither the Federal Trade Commission Act nor the Robinson-Patman Act should "apply to the business of insurance or to acts in the conduct of that business." In debate on the floor of the House

The first section of the Act declares that "the continued regulation and taxation by the several States of the business of insurance is in the public interest," and that "silence on the part of the Congress shall not be construed to impose any barrier to the regulation or taxation of such business by the several States." "Continued regulation" again conveys the idea that Congress did not intend to give anything to the States that they did not already possess. Silence on the part of Congress was not to be construed as imposing any barrier to State regulation. That is not to say, however, that there were to be no *other* barriers to or limitations upon State regulation: areas in which the States could never regulate were not dealt with one way or the other.

In construing the meaning of this section, it is to be borne in mind that under the commerce clause of the Federal Constitution Congress not only has exclusive power to regulate interstate commerce but in exercising that power can even regulate *intrastate* activities which affect interstate commerce. *United States v. Wrightwood Dairy Co.*, 315 U. S. 110, 119 (1942). When Congress enters this intermediate zone and legislates fully on a given subject, the Federal statute, "*ipso facto*, supersedes existing state legislation on the same subject." *Southern Ry. Co. v. R. R. Comm., Indiana*, 236 U. S. 439, 446 (1915).

the wisdom of such an exclusion was questioned (91 Cong. Rec. 1027), and the Chairman of the House Committee on the Judiciary offered to propose to the Joint Committee of Conference the elimination of the exclusionary section and the inclusion of the Federal Trade Commission Act in the moratory section, thus making the Federal Trade Commission Act applicable to the insurance business, along with the Sherman and Clayton Acts, after 1947. No opposition to this proposal was voiced on the floor. The conference committee adopted the suggestion, with the result that the Federal Trade Commission Act was to apply to the business of insurance upon lapse of the moratorium.

The first section must therefore mean that the continued regulation and taxation by the States of the business of insurance *to the limits of their constitutional power* is in the public interest. Certainly the States lack the power to tax or regulate purely interstate activities of insurance companies. It can only be that the section provides that State authority over *intrastate* insurance business that might affect interstate insurance business could not be disturbed by Federal legislation which did not specifically mention insurance.

We now approach the determination of the proper construction of the crucial second section of the McCarran-Ferguson Act. Subsection (a) thereof makes the business of insurance and everyone engaged therein "subject to State laws relating to the regulation or taxation of such business." This is a clear pronouncement that the *South-Eastern Underwriters* case does not dislodge State regulation of insurance.

The second section goes on to provide in subsection (b):

No Act of Congress shall be construed to invalidate, impair, or supersede any law enacted by any State for the purpose of regulating the business of insurance * * * unless such Act specifically relates to the business of insurance: * * *.

Obviously, this does not purport to give the States the power to legislate outside their jurisdiction. Nor does it interfere in any way with Federal laws covering interstate commerce over which the States could not ever claim jurisdiction, e.g., the postal statutes. See *United States v. Sylvanus*, 192 F. 2d 96, 100 (7th Cir. 1951), *cert. denied* 342 U. S. 943 (1952). Such laws cannot impair or supersede

State laws, for they do not relate to the same channels of commerce. And, under the terms of the Act, they become inoperative only if and to the extent that they impair, invalidate, or supersede State laws. *Maryland Casualty Co. v. Cushing*, 347 U. S. 409, 413 (1954).

Section 2(b) continues:

Provided, That after January 1, 1948, * * * the Federal Trade Commission Act, as amended, shall be applicable to the business of insurance to the extent that such business is not regulated by State law.

Even without such a proviso the Federal Trade Commission Act would have been applicable to those aspects of the business of insurance which are exclusively in interstate commerce, for that area was never reached by State law. They could not, therefore, be "regulated by State law." Moreover, if this proviso meant only that no action could be taken under the Federal Trade Commission Act which was in conflict with State law it was wholly unnecessary. The statute already had stated that no Act of Congress shall invalidate, impair, or supersede a State law unless it relates specifically to insurance. It is the office of a proviso "to except something from the operative effect or to qualify or restrain the generality of the substantive enactment to which it is attached." *Cox v. Hart*, 260 U. S. 427, 435 (1922). The proviso in the McCarran-Ferguson Act must therefore make the Federal Trade Commission Act an exception to the rule that no Federal law not relating specifically to insurance may supersede a State law enacted for the purpose of regulating the business of insurance. It must have been contemplated that under certain conditions the Federal Trade Commission Act might supersede a State law pur-

porting to regulate the business of insurance but not covering all aspects thereof. In its application to the interstate phase of a transaction which cannot be regulated by State law, for example, the Federal law in one sense would supersede a State law covering the same subject matter in a different and local phase of the transaction.

The Federal and State laws in this field supplement and reinforce one another in order to provide full protection to the public. Indeed, it seems to us that such a view is not only consonant with but imperative to the preservation of the public interest in this domain. We fully subscribe to the principle that the Federal Government ought not encumber the States in wielding the maximum of their sovereign powers over the business of insurance. This we understand to be the essential aim of the McCarran-Ferguson Act. But, in the absence of a far stronger and more positive commandment than that statute lays down, we cannot be persuaded that, as to the business of insurance, the Federal authority has been ousted from the interstate regulatory sphere. It surely could not have been the Congressional intent to create a legal vacuum wherein an insurance company would have been enabled to escape regulation of the interstate aspects of its business in cases in which the Federal and State laws did not conflict.

We observe that Section 3(a) of the McCarran-Ferguson Act is a moratory clause suspending the application of the Federal Trade Commission, Sherman, Clayton, and Robinson-Patman Acts to the business of insurance for nearly three years. If those statutes were not to "apply to the business of insurance or to acts in the conduct thereof" until January 1, 1948, we think it logically follows that they were

to apply to that business and to those acts after the prescribed date. Thus this subsection, as well as Section 2(b), is inconsistent with any notion that the Commission's jurisdiction over the interstate aspects of the insurance business was repealed.

In withdrawing Federal jurisdiction under the Federal Trade Commission, Sherman, Clayton and Robinson-Patman Acts over the business of insurance for nearly three years, Congress apparently was attempting to eliminate arguments by insurance companies that Federal regulation alone was adequate and that State regulations were burdening interstate commerce. Congress gave the States about three years in which to define a reasonable area of State police power. Beyond that reasonable area States could not go. Regardless of whether a State regulated insurance during this time, after 1947 the Federal Trade Commission was expressly authorized to regulate it on different grounds, namely, regulating the use of the interstate channels of commerce.

Since the Court in the *South-Eastern Underwriters* case had said that insurance sold by a company in one State to a customer in another State was in interstate commerce, this type of transaction was subject to the jurisdiction of the Commission. During the moratorium, Congress intended that the Commission not exercise its jurisdiction. After that period the Federal Trade Commission Act was again to apply, to the extent that the business of insurance was not regulated by State law. Since the States were given no new jurisdiction, State law could regulate the business of insurance only to the extent possible before the *South-Eastern Underwriters* decision. And, as the Court recognized in that

case, there were elements of interstate transactions which the States could not regulate.⁴

The legislative history of the McCarran-Ferguson Act supports the foregoing conclusion. We believe this legislative history shows plainly that in enacting that measure Congress was concerned only with ensuring that State laws regulating the business of insurance should not be superseded in the zone of "affecting interstate commerce" by Federal legislation not expressly relating to insurance. Thus we find in the reports of the committees of both Houses of Congress this statement:

Inevitable uncertainties which followed the handing down of the decision in the *Southeastern Underwriters Association case*, with respect to the constitutionality of State laws, have raised questions in the minds of insurance executives, State insurance officials, and others as to the validity of State tax laws as well as State regulatory provisions; thus making desirable legislation by the Congress to stabilize the general situation.

Bills attempting to deal with the problem were considered in both the House and the Senate during the Seventy-eighth Congress, but failed of enactment. Your committee believes there is urgent need for an immediate expression of policy by the Congress with respect to the continued regulation of the business of insurance by the respective States. Already many insurance companies have refused, while others have threatened refusal to comply with State tax laws, as well as with

⁴"The power granted to Congress [by the Commerce Clause] is a positive power. It is the power to legislate concerning transactions which, reaching across state boundaries, affect the people of more states than one;—to govern affairs which the individual states, with their limited territorial jurisdictions, are not fully capable of governing." 322 U. S. at 552.

other State regulations, on the ground that to do so, when such laws may subsequently be held unconstitutional in keeping with the precedent-smashing decision in the *Southeastern Underwriters case*, will subject insurance executives to both civil and criminal actions for misappropriation of company funds. [Sen. Rep. No. 20, 79th Cong., 1st Sess., 1-2; H. R. Rep. No. 143, 79th Cong., 1st Sess., 2.]

But authority to regulate the interstate aspects of the business of insurance was to remain with the Federal Government, as can be seen from the following statement in the House Committee report, which was quoted with approval by Senator McCarran in floor debate on the bill (91 Cong. Rec. 1443):

It is not the intention of Congress in the enactment of this legislation to clothe the States with any power to regulate or tax the business of insurance beyond that which they had been held to possess prior to the decision of the United States Supreme Court in the *Southeastern Underwriters Association case*. Briefly, your committee is of the opinion that we should provide for the continued regulation and taxation of insurance by the States, subject always, however to the limitations set out in the controlling decisions of the United States Supreme Court, as, for instance, in *Allgeyer v. Louisiana* (165 U. S. 578), *St. Louis Cotton Compress Co. v. Arkansas* (260 U. S. 346), and *Connecticut General Insurance Co. v. Johnson* (303 U. S. 277) * * *. [H. R. Rep. 143, 79th Cong., 1st Sess., 3.]

The three cases last cited in the foregoing excerpt all hold that a State's power to tax insurance activities is limited to transactions occurring within its boundaries. We would be

hard put to account for the reference to these decisions if the purpose of the McCarran-Ferguson Act were to substitute an exclusive State power for the Federal Trade Commission's jurisdiction over the interstate aspects of the insurance business.

We are confirmed in our belief to the contrary by the decision of *United States v. Sylvanus*, 192 F. 2d 96 (7th Cir. 1951), *cert. denied* 342 U. S. 943 (1952), wherein the Court held that the McCarran-Ferguson Act did not abolish Federal jurisdiction under the postal laws to prosecute for mail fraud committed in the sale of insurance in a State having its own statutes regulating that business. The Court carefully distinguished the interstate and *intrastate* aspects of the defendant's deceptive practices:

[I]t can not properly be said that this indictment has to do with the regulation of insurance business in Illinois. Rather it has to do with the question of whether defendants have used the mails in pursuance of a scheme so to manipulate their authorized regulated business in Illinois as to result in fraudulent deception of its prospective policy holders. The charge is not that the corporate charter should be ignored or that the administrative officers of Illinois may not perform their statutory duties and supervise and regulate the company's insurance business in Illinois, but goes to the use of the mails, over which the Congress has, by the Constitution, paramount power and authority. It matters not that the alleged fraudulent actors might be prosecuted under the law of Illinois. The indictment charges simply that acts of deception amounting to a scheme to defraud have been committed by defendants, in conducting their authorized business, and that defendants have availed themselves of the mails in execu-

tion or attempted execution of that scheme. It is immaterial that the fraudulent plan itself is outside the jurisdiction of Congress, *Badders v. U. S.*, 240 U. S. 391 * * * (or that the scheme charged involved a transaction forbidden by the laws of the state. *O'Hara v. U. S.*, 6 Cir., 129 F. 551.

We conclude, then, that it was not the intent of the Congress, by its passage of the McCarran Act, to surrender control of the use of the mails or to cease to authorize the federal courts to determine whether the mails have been utilized in attempted execution of a scheme to defraud and that the district court, by entertaining jurisdiction, did not interfere with regulation of the insurance company by the state but properly overruled the motions to dismiss the indictment [192 F. 2d at 100.]

Unlike the Federal Trade Commission Act, the postal laws were not expressly brought by the McCarran-Ferguson Act to bear on the business of insurance. Indeed, that statute declares that *no* Act of Congress not specifically relating to the business of insurance shall be construed to invalidate, impair, or supersede any State law regulating that business. Yet in the *Sylvanus* decision, *supra*, the Court held that a postal statute banning a course of conduct which in its *intrastate* aspects constituted a State offense was unaffected by the McCarran-Ferguson Act.

All the more, then, under the Federal Trade Commission Act, which the McCarran-Ferguson Act made applicable to the business of insurance, there must remain an irreducible area of Commission jurisdiction over the interstate activities of insurance companies which cannot be reached by State law and as to which the limitation "to the extent

that such business is not regulated by State law" is inoperative.

A State can revoke an insurance corporation's charter or license, thus affecting interstate commerce to some degree. To the extent necessary to enable it effectively to exercise its police power the State can take action having consequences in other jurisdictions, and the Federal Trade Commission could not prohibit such regulation. And the text and history of the McCarran-Ferguson Act leave no doubt that the power of the States to tax, or to fix rates for, insurance companies doing business within their territories was in no way to be invalidated, impaired, or superseded by Federal law. However, as we have already said, our proceeding to abate deceptive practices by such companies does not impinge on those State functions, and we do not believe that the Federal Trade Commission Act, when read in conjunction with the McCarran-Ferguson Act, can be properly interpreted to interfere with the taxing or rate-fixing powers.

By executing its statutory mandate to prevent deceptive practices in the interstate business of insurance, the Commission in no wise usurps State laws prohibiting false advertising. The Federal Trade Commission Act and the State laws are both designed to suppress deception in advertising. The Commission's action in the instant matter aids the States in their own local procedures to protect their citizenry from such excesses. The McCarran-Ferguson Act was passed to enable them to continue such regulation. *Maryland Casualty Co. v. Cushing*, 347 U. S. 409, 413 (1954).

The principle that the Commission may proceed against a practice that may simultaneously be the object of State

regulation is one of long standing.⁵ Thus the Commission's orders prohibiting the interstate shipment of lottery devices to be used in selling merchandise have been universally upheld on judicial review despite the fact that such devices are not put to their intended use until they have left the channels of interstate commerce (just as the respondent's brochures are not displayed for sales purposes until they have come to rest in the hands of respondent's agent within a State). See *Seymour Sales Co. v. FTC*, 216 F. 2d 633, 635-6 (D. C. Cir. 1954), *cert. denied* 348 U. S. 928 (1955), and cases therein cited. The idea of a field of enforcement divided between Federal and State Governments is embedded in a number of statutes, in addition to the McCarran-Ferguson Act. Examples of these are Acts dealing with the sale of liquor (the Wilson Act, 26 Stat. 313, and the Webb-Kenyon Act, 33 Stat. 699), convict-made goods (the Hawes-Cooper Act, 45 Stat. 1084, and the Ashurst-Sommers Act, 49 Stat. 494), oleomargarine (32 Stat. 193), diseased plants (44 Stat. 98), black bass (64 Stat. 845), whaling (49 Stat. 1246), prizefight films (54 Stat. 686), and the Federal Power Act (49 Stat. 838).

In view of our foregoing consideration of the terms, legislative history, and judicial interpretation of the McCarran-Ferguson Act, we do not think the statute admits of the construction placed on it by the hearing examiner.

Respondent points out that it did not send its advertising materials to sales prospects but mailed them to its own

⁵As recently as April 2, 1955, the Supreme Court of the United States reaffirmed this principle in *Pennsylvania v. Nelson*, 350 U. S. —, declaring that where the Federal Government had occupied the field of protecting against sedition, States were not thereby prevented "from prosecuting where the same act constitutes both a Federal and a State offense under the police power * * *."

agents in various States for local use, and that hence its advertising occurred only in *intrastate* commerce. We consider such an analysis factitious and unrealistic. Respondent's annual premium collections on health-and-accident insurance sold by its agents throughout fourteen States amount to about \$2,750,000. It employs an indisputable channel of interstate commerce, the mails, for sending advertising materials to its agents, receiving applications for insurance from them, and forwarding the issued policies to them for delivery to policyholders. The actual interview of a prospect, though it necessarily happens at a fixed geographical point within some State, cannot be isolated from the remainder of respondent's established course of dealing. By preparing its brochures and furnishing them, by mail, to its agents in various States for their use in sales presentations, respondent engages in an interstate commercial practice that must be viewed as a whole and not compartmentalized. *Consolidated Manufacturing Co. v. FTC*, 199 F. 2d 417, 418 (4th Cir. 1952).

Under the Federal Trade Commission Act, one who sells through agents in other than his home State must answer for deceptive advertising which he supplies to his agents, even though such representations are by necessity conveyed to the public within a particular State. *General Motors Co. v. FTC*, 114 F. 2d 33, 36 (2d Cir. 1940); *Ford Motor Co. v. FTC*, 120 F. 2d 175, 183 (6th Cir. 1941).

The Commission is accordingly of the opinion that the hearing examiner erred in not holding that the Commission had jurisdiction over such of respondent's practices in interstate commerce as might be found to be unfair or deceptive, irrespective of the existence of State statutes applicable to the *intrastate* elements of such practices.

We turn now to the appeal from the hearing examiner's dismissal of the complaint for lack of substantial evidence.

Respondent was charged with falsely representing, among other things, that the indemnification provided by its policies might continue to the age of sixty, or for an indefinite period, at the option of the insured. The sole evidence adduced on this allegation consists of brochures which state as follows, or similarly:

NO AGE PROVISION terminating or reducing benefits because of increasing age,

and—
POLICY FORM ASA Issued to Men and Women, ages 18 to 60.

Only persons engaged in non-hazardous occupations are eligible and all applicants must be in good health.

We do not believe that these two statements, separately or together, particularly in the absence of assertions of lifetime duration or any other definite period of coverage, can be reasonably read as meaning more than that respondent's policies contain no provisions terminating or reducing benefits on account of increasing age and that applicants for such policies must be within the age limits specified. It is true that respondent's accident-and-health policies are term contracts renewable at the option of the company on the premium data. However, nothing to the contrary is expressed or reasonably implied in the aforementioned statements and we therefore discern therein no capacity or tendency to deceive. We uphold the hearing examiner's dismissal of the complaint in this respect.

Respondent was next charged with falsely representing that its policies provide indemnification for all illness or ac-

cidents. To prove this charge there were introduced respondent's brochures containing broad, general representations, of which the following are typical:

(CONFINING)
 (ILLNESS)
 (INDEMNITY)

\$.....PER MONTH

for loss of time from illness, beginning on the fourth day and continuing for one year for each illness. (Up to two months full benefits for non-confining illness.)

Total

Accident.....per month

Disability

for loss of time from accidental injury beginning with the first day of disability and continuing for life if you are totally disabled.

Partial

Accident.....per month

Disability.

for loss of time from accidental injury, beginning with the first day and continuing for period of partial disability (limit 3 months).

In conjunction with the foregoing there were introduced copies of respondent's policies containing conditions substantially limiting the illness and accident benefits advertised. The examiner found that the charges in this regard were not supported by substantial evidence, not for the reason that the representations were not proved nor that the terms of the policies did not materially limit the advertised benefits, but for a number of other reasons which are in our judgment unsound and contrary to controlling precedent.

The examiner attached great weight to the fact that the brochures in question included a statement to the effect that

benefits therein described "are subject to the terms of the policy issued." We are not in accord with the examiner's view that such a notice is sufficient to correct erroneous impressions given by the representations "CONFINING ILLNESS INDEMNITY—\$.....per month for loss of time from illness, beginning on the fourth day and continuing for one year for each illness," or "TOTAL ACCIDENT DISABILITY—\$.....per month for loss of time from accidental injury, beginning with the first day of disability and continuing for life while you are totally disabled." Respondent's vice-president, W. C. Murphy, testified that an agent's sales kit consisted of the sales brochures, a rate book, "and, I guess, a fountain pen," and that respondent's agents are not required to carry sample policies with them. These sales brochures consist of an application form and a receipt form for the initial payment. These facts lead us to believe that many applicants do not see sample policies before executing formal applications for respondent's insurance. We consider this circumstance significant. In the context of the sales presentation, in the course of which the prospect has little or no opportunity to inspect a sample policy, the sales brochure, we are convinced, clearly has the tendency and capacity of misleading as to the extent of coverage. We disagree with the examiner's statement that if the prospect would read the entire page he would see that all benefits are subject to the terms of the policy and then if interested he would naturally inquire of the agent as to the terms. Rather it is our view that the brochure functions as a self-contained piece of advertising that of itself is likely to induce a prospect to purchase respondent's insurance.

Furthermore, we do not believe that the prospective purchaser is under any obligation to investigate the extent to

which respondent's unrestricted representations of coverage for illness or accidents are untrue. "Under repeated decisions, the purchaser is entitled to rely upon the representations made. He need not distrust what is told him. * * * It goes without saying almost that it is extremely difficult for a layman to understand the terms and conditions of such policies as these, but whether the applicants did or did not read and understand the policies is beside the point." *United States v. Sylvanus*, 192 F. 2d 96, 105 (7th Cir. 1951) *cert. denied* 342 U. S. 943 (1952).

If the busy or careless businessman is entitled to protection from deceptive printed forms, even though an attentive, careful person would not be deceived thereby, *Independent Directory Corp. v. FTC*, 188 F. 2d 468, 470, 471 (2d Cir. 1951), it does not devolve upon respondent's prospects to ascertain the extent to which respondent's advertising may or may not exaggerate or falsify. The Federal Trade Commission Act is violated if the first contact or interview is secured by deception even though the true facts are made known to the purchaser before he enters into the contract to purchase. *Carter Products, Inc. v. FTC*, 186 F. 2d 821, 824 (7th Cir. 1951).

Another questionable premise in the examiner's reasoning is that "any reasonably intelligent person considering the purchase of health and accident insurance would be expected to know that health and accident policies do not ordinarily cover all illnesses and all accidents, regardless of their nature or time of origin or occurrence." Apart from the fact that the Federal Trade Commission has the duty to protect not only the "reasonably intelligent" but also the ignorant, the unthinking, the credulous, and the inexper-

enced, *Charles of the Ritz Dist. Corp. v. FTC*, 143 F. 2d 676, 679 (2d Cir. 1944), we question whether the fact asserted by the examiner to be common knowledge—if it be a fact—is generally known even to the “Reasonably intelligent.” It is certainly not beyond the realm of actuarial conceivability, not to say possibility, that in these United States in the mid-twentieth century insurance could be written which would afford protection against all illness and all accidents.

The examiner noted that no proof of actual deception was offered and declared, “Absence of such evidence justifies a presumption that none existed.” Despite his disclaimer of reliance on such a presumption, it evidently was one of the considerations impelling him to dismiss these charges. This is manifest error. It was firmly established long since that actual deception of the public need not be shown in Federal Trade Commission proceedings and that representations having a capacity to deceive are unlawful. *Charles of the Ritz Dist. Corp. v. FTC*, *supra*, 143 F. 2d at 680.

The initial decision devotes considerable space to three decisions of the Supreme Court of Mississippi, all involving private litigation, in which that Court accorded a more liberal interpretation to the conditions contained in accident and health policies similar to those here than their literal intent would seem to justify. He concludes from these holdings that the conditions are not so burdensome as to render untrue respondent’s broad representations.

The decisional law of a single State is no sure guide to the interpretations that other States may place on respondent’s policies. What is more, the fact that a policyholder may eventually prevail over a respondent in an appeal from a jury trial does not rectify the deception inhering in the sales

practices whereby he was induced to purchase the insurance. He may be discouraged by the literal terms of the policy from seeking legal redress. We do not consider that the fact that if he perseveres to his State supreme court he may succeed in winning an interpretation of respondent's policy more favorable to him than the language literally warrants is a substitute for the protection assured him by the Federal Trade Commission Act.

The hearing examiner discusses at some length the reasonableness of the restrictions that respondent attaches to its illness and accident benefits. This is, of course, not germane to the question of whether respondent's representations tend to deceive and mislead.

There remain for discussion two other charges dismissed by the examiner. It was alleged that respondent had represented its hospital-and-surgical-expense policy to provide for the payment of \$150 for any operation serious enough to justify such a surgeon's fee. The evidence shows that respondent disseminates a one-page advertisement which, among other things, states that the policy provides for—

SURGERY

from \$3.00 to \$150.00

\$150.00

depending on seriousness
of operation

The policy to which this refers sets out a long schedule of the various amounts payable for specified types of surgical operations. Sixty-seven different benefits are enumerated. A mere six of these amount to \$150: operations for removal of a portion of the lung, removal of kidney, removal of portion of the vertebra, removal of entire prostate or thyroid gland, and cutting into the cranial cavity.

Only \$25 is allowed for removal of tonsils and adenoids. Appraising this advertisement as it is likely to be read by unsuspecting, incautious members of the purchasing public, we gain the impression that the policy will indemnify up to a maximum sum of \$150 for any surgical operation serious enough to cost such an amount. Thus, if a tonsillectomy cost \$50, we would think it reasonable to expect that one insured by the policy would be protected to that extent. The advertisement is therefore deceptive and misleading in that it promises benefits which the policy does not corroborate.

Lastly, it was charged that respondent falsely represented that its hospital-and-surgical-expense policy would pay maternity benefits in addition to room service and hospital expense.

On the advertisements for this type of policy, following a listing of the benefits of room service, hospital expense, and surgery, there is shown as one of the "Additional Benefits:"

Maternity: Up to \$..... after insurance has been in force for 10 months.

We would have difficulty in reading the foregoing as anything less than a representation that the maternity benefit is in *addition* to the other benefits provided by the policy. In actuality, however, the maternity benefit is provided for in a rider wherein it is specified that the maternity benefit shall be "in lieu of all other benefits provided in the policy for hospital service." Thus, far from being an *additional* benefit, it is only a *substitute* benefit, and the representation in regard thereto is hence at material variance with the facts. We believe that the type of misconception that such

advertising as this can engender in the minds of couples seeking to provide financially for the birth of children is especially vicious. There can be no question that it is patent deception to describe as "additional" a benefit which excludes participation in other benefits, directly following a broad representation that hospital and surgical expenses are covered.

In view of the foregoing, the initial decision is vacated and set aside, and our findings as to the facts, made on consideration of the whole record including the initial decision and conclusions and order to cease and desist will be issued in lieu thereof.

Commissioners Gwynne and Mason dissent.

April 24, 1956.

UNITED STATES OF AMERICA
BEFORE FEDERAL TRADE COMMISSION

In the Matter of

THE AMERICAN HOSPITAL AND LIFE
INSURANCE COMPANY, a corporation.

Docket No. 6237

JOINT DISSENTING OPINION OF CHAIRMAN GWYNNE
AND COMMISSIONER MASON

We are unable to agree with the views expressed in the majority opinion. The reasons for our dissent are: first, the opinion completely ignores the intent of Congress in adopting Public Law 15 (McCarran Act); second, it would return the insurance business to the uncertainty and confusion which followed the decision in *U. S. v. South-Eastern Underwriters Association*, (1944) 322 U. S. 533. It was to remove this uncertainty and confusion that the McCarran Act was adopted.

Prior to the decision in the *South-Eastern Underwriters* case, regulation of insurance was recognized as a problem for the respective states. This was partly because the Supreme Court of the United States in a long line of decisions from *Paul v. Virginia*, 8 Wall. 168, to *New York Life Insurance Company v. Deerlodge County*, 231 U. S. 495, had held that the business of insurance was not commerce.

Although the business of insurance was not subject to regulation under the commerce clause, it was universally recognized as a business affected with a public interest. Consequently, the states found few obstacles to regulating it to the fullest extent and in the manner the respective legis-

latures thought to be for the public good in their particular states. These laws took the form of determining who should engage in the insurance business within the state boundaries, the terms under which the business might be conducted, regulation as to rates to be charged (even to the extent of fixing them, or permitting representatives of insurance companies to do so under state supervision). The right of the states to levy tax and license fees, even discriminating against foreign insurance corporations, was also recognized. See 44 C. J. S. p. 518; *LaTourette v. McMaster, Insurance Commissioner*, 244 U. S. 465.

Had these regulations been directed at the usual industry engaging in interstate commerce, many would have run counter to paramount Federal authority. For example, the many discriminatory taxing programs were not in accord with decisions of the Supreme Court relating to interstate commerce generally. Certain state rate regulations were contrary to the philosophy of Federal antitrust laws. No conflict arose, however, because it had been settled that the business of insurance was not interstate commerce.

This does not mean that the insurance business and the states in regulating it were free from all Federal constitutional and statutory provisions. They were, of course, subject to such constitutional restraints as the due process clause, the exclusive right of Congress to establish post offices and post roads [*U. S. v. Sylvanus* (1951), 192 F. 2(d. 96)] and many others. In fact they were, and still are, subject to all restraints properly imposed by paramount power except as that power elects to exempt them.

In regulating insurance, states act under that great reservoir of power known as the police power. There are, o

course, jurisdictional limitations on the exercise of that power. It may be directed only at activities within the state. It has never been claimed that the states may operate directly in that phase of regulation known as the flow of commerce. Nor by no stretch of the imagination can it be said that the McCarran Act intended to give any such power.

In 1944 in the *South-Eastern Underwriters* case, the court reversed its holdings of 75 years standing and concluded that the business of insurance was interstate commerce. It was also specifically held that it was subject to the Sherman Act.

The immediate effect of this decision was to bring the business of insurance and the laws of the various states regulating it under the paramount power of the Federal antitrust laws. Because of the inconsistency previously referred to, this created considerable uncertainty and confusion in the insurance field, of which Congress took immediate cognizance.

Confronted with this emergency, Congress had several alternatives:

- (1) It might take no action and allow the antitrust statutes to be superimposed on the existing state systems of regulation and taxation. This would create great confusion as to the legal boundaries between Federal and state control, which confusion could only be lessened, bit by bit, as courts made decisions on specific problems.

- (2) It might write a comprehensive law for Federal regulation of insurance,—a law which would provide new methods for many matters theretofore handled by the states, and which might make such changes in the application of existing antitrust laws to the peculiar

business of insurance as experience had indicated might be necessary.

(3) It might recognize and continue existing or future state regulation by removing the obstacles to that regulation which had been called into being by the decision that the business of insurance was interstate commerce.

Congress chose the latter course and expressed its choice by the adoption of the McCarran Act. The general purpose of this legislation was to meet the problems created by the *South-Eastern Underwriters* case. The plan for meeting this problem is clearly expressed in the law. It may be reduced to a simple statement as follows: The Congress declares that the continued regulation and taxation by the states of the business of insurance is in the public interest and shall remain, with two exceptions, namely, (1) this Act shall not render the Sherman Act inapplicable to agreements to or acts of boycott, coercion or intimidation, and (2) that after June 30, 1948 (but not before), the Sherman Act, the Clayton Act and the Federal Trade Commission Act shall be applicable to the business of insurance, but only to the extent that such business is not regulated by state law. Thus, in any case, the jurisdictional question may be quickly and certainly resolved by finding the answer to a simple question, namely, is there state regulation to meet the particular problem presented by the facts.

That this is the proper interpretation of the law is indicated by the following: (1) the wording of the statute itself, (2) the legislative history, (3) events which transpired immediately following passage of the law, (4) decisions of the courts interpreting the McCarran Act.

It is, of course, well settled that the power of Congress under the commerce clause is broad and is also paramount. It includes the right to regulate, or even prohibit, the flow of things across state lines, the right to regulate the instrumentalities by which commerce is carried on, and also the right to regulate activities, wholly within the state, which affect interstate commerce. The power to regulate the so-called flow of commerce covers every species of movement of persons and things, whether for profit or not; every species of communication; every species of transmission of intelligence, whether for commercial purposes or otherwise; every species of commercial negotiations, which, as shown by the established course of business, will involve sooner or later an act of transportation of persons or things, or the flow of services or power across state lines. (See the *Analysis of the United States Constitution* as prepared by the Legislative Reference Service, Library of Congress, and cases cited.)

The great power of Congress to regulate matters wholly within the state but affecting interstate commerce is well settled in *U. S. v. Darby* (1944), 312 U. S. 100, in which the court held that the payment of substandard wages wholly within a state affected commerce and could be prohibited.

Going with these great powers, and a necessary corollary to them, is the right of Congress to determine where and when these powers are to be used. Thus, it may decline to exercise certain powers; and it may condition its refusal to exercise them on the fact of regulation by the states.

This is exactly what Congress was seeking to do in the McCarran Act. Much of the fallacy of the reasoning in the majority opinion springs from a refusal to recognize this

obvious fact. The majority would decide the issues in this case by applying principles which admittedly were applicable following the decision in the *South-Eastern Underwriters* case. They conveniently ignore the fact that the purpose of the McCarran Act was to prevent the application of these principles.

For convenience, and before discussing the law in detail, the McCarran Act is set out here in full text:

“Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the Congress hereby declares that the continued regulation and taxation by the several States of the business of insurance is in the public interest, and that silence on the part of the Congress shall not be construed to impose any barrier to the regulation or taxation of such business by the several States.

“Sec. 2. (a) The business of insurance, and every person engaged therein, shall be subject to the laws of the several States which relate to the regulation or taxation of such business.

“(b) No Act of Congress shall be construed to invalidate, impair, or supersede any law enacted by any State for the purpose of regulating the business of insurance, or which imposes a fee or tax upon such business, unless such Act specifically relates to the business of insurance: *Provided*, That after January 1, 1948, the Act of July 2, 1890, as amended, known as the Sherman Act, and the Act of October 15, 1914, as amended, known as the Clayton Act, and the Act of September 26, 1914 known as the Federal Trade Commission Act, as amended, shall be applicable to the business of insurance to the extent that such business is not regulated by State law.

“Sec. 3 (a) Until January 1, 1948, the Act of July 2, 1890, as amended, known as the Sherman Act, and the Act of October 15, 1914, as amended, known as the Clayton Act, and the Act of September 26, 1914, known as the Federal Trade Commission Act, as amended, and the Act of June 19, 1936, known as the Robinson-Patman Antidiscrimination Act, shall not apply to the business of insurance or to acts in the conduct thereof.

“(b) Nothing contained in this Act shall render the said Sherman Act inapplicable to any agreement to boycott, coerce, or intimidate, or act of boycott, coercion, or intimidation.

“Sec. 4. Nothing contained in this Act shall be construed to affect in any manner the application to the business of insurance of the Act of July 5, 1935, as amended, known as the National Labor Relations Act, or the Act of June 25, 1938, as amended, known as the Fair Labor Standards Act of 1938, or the Act of June 5, 1920, known as the Merchant Marine Act, 1920.

“Sec. 5. As used in this Act, the term ‘State’ includes the several States, Alaska, Hawaii, Puerto Rico, and the District of Columbia.

“Sec. 6. If any provision of this Act, or the application of such provision to any person, or circumstances, shall be held invalid, the remainder of the Act, and the application of such provision to persons or circumstances other than those to which it is held invalid, shall not be affected.”

While the title to a statute is not, strictly speaking, a part of the law, nevertheless, it is interesting to note that the title is “To express the intent of the Congress with reference to the regulation of the business of insurance.”

Immediately after the enacting clause, occurs the following:

“That the Congress hereby declares that the continued regulation and taxation by the several States of the business of insurance is in the public interest,
* * *”

This is a clear and positive declaration of Congressional policy, which cannot be read out of the law. It expressly points out the character of state regulation and taxation which is in the public interest. It is the “continued regulation”. In the past, the states have done all the regulating so far as the commerce clause was concerned. That was to carry on, with the exceptions expressly provided for, and which will be discussed hereafter. There is nothing in this statement or in the entire Act which justifies the interpretation that the regulation contemplated was to continue only by the grace of the Federal Trade Commission.

Speaking on this subject in *Prudential Insurance Company v. Benjamin*, 328 U. S. 408, the Supreme Court of the United States had this to say:

“Obviously Congress’ purpose was broadly to give support to the existing and future State systems for regulating and taxing the business of insurance. This was done in two ways. One was by removing obstructions which might be thought to flow from its own power, whether dormant or exercised, except as otherwise expressly provided in the Act itself or in future legislation. The other was by declaring expressly and affirmatively that continued State regulation and taxation of this business is in the public interest and that the business and all who engage in it ‘shall be subject to’ the laws of the several States in these respects.

“Moreover, in taking this action Congress must have had full knowledge of the nation-wide existence of state systems of regulation and taxation; of the fact that

they differ greatly in the scope and character of the regulations imposed and of the taxes exacted; and of the further fact that many, if not all, include features which, to some extent, have not been applied generally to other interstate business. Congress could not have been unacquainted with these facts and its purpose was evidently to throw the whole weight of its power behind the state systems, notwithstanding these variations.

* * *

“* * * it clearly put the full weight of its power behind existing and future State legislation to sustain it from any attack under the commerce clause to whatever extent this may be done with the force of that power behind it, subject only to the exceptions expressly provided for.”

That a declaration of policy by Congress will be given weight by the courts is well settled. See *U. S. v. Darby*, 312 U. S. 100.

Continuing, the statute further provides:

“* * * and that silence on the part of the Congress shall not be construed to impose any barrier to the regulation or taxation of such business by the several States.”

Some of the powers granted to Congress by the Constitution are either expressly, or by necessary implication, exclusive and cannot be exercised by the states, even though Congress has taken no action thereon and has remained silent on the subject. The power to declare war is an example. Under the commerce clause, the line between Federal and state authority cannot be so precisely drawn. This is particularly true in the field of state activities which may or may not have a prohibited effect on interstate commerce.

The supremacy of the Congress, when properly exercised in this field, is clearly recognized. A difficult problem arises where the powers of Congress are allowed to lie dormant, that is, when Congress is silent on a given subject. Should its silence be construed as a reservation of its power, which will bar any state regulation; or will it be considered as consent to state action until Congress has spoken? This question has arisen many times and has received a variety of answers, depending upon the circumstances of the particular case.

The question of silence of Congress is not involved in this case. The Congress evidently thought it might be raised, and intended to make its position clear. The inclusion of the above quoted clause indicates how thoroughly Congress has considered this matter and how determined it was to remove all possible barriers to its declared policy of state regulation.

Section 2(a) provides:

“The business of insurance, and every person engaged therein, shall be subject to the laws of the several States which relate to the regulation or taxation of such business.”

When used in this connection, “subject to” means “subordinate to”, “obedient to”. *Shay v. Roth*, Calif. (1923), 221 P. 967; *Davies v. City of Los Angeles* (1890), 24 P. 771.

In a long line of cases from *Paul v. Virginia* to *New York Life Insurance Co. v. Deerlodge County*, insurance companies have challenged their subjection to state regulatory or taxing laws. The Supreme Court, however, consistently rejected this defense on the theory that the business of insurance was not interstate commerce.

When the Supreme Court in *South-Eastern Underwriters* reversed its decision, this defense became good, and the business of insurance was subject to state laws, only to the extent that such laws did not interfere with paramount Federal power under the commerce clause. In Section 2(a) Congress clearly showed its intention to remove the barrier of its own paramount power and thus make the business of insurance subject to state laws, notwithstanding the decision in *South-Eastern Underwriters*.

Section 2(b) provides:

“No Act of Congress shall be construed to invalidate, impair, or supersede any law enacted by any State for the purpose of regulating the business of insurance, or which imposes a fee or tax upon insurance: *Provided*, That after January 1, 1948, the Act of July 2, 1890, as amended, known as the Sherman Act, and the Act of October 15, 1914, as amended, known as the Clayton Act, and the Act of September 26, 1914, known as the Federal Trade Commission Act, as amended, shall be applicable to the business of insurance to the extent that such business is not regulated by State law.”

Stronger language to give state laws “top billing” could hardly be imagined. The clause beginning with “unless” is particularly significant. While Congress had not legislated directly concerning the insurance business, it had done so with reference generally to interstate commerce and with reference to persons and corporations engaged therein. The antitrust laws are examples. Congress in Sec. 2(b) said none of these laws (except as indicated in the proviso) shall apply to the business of insurance, unless such law specifically relates to insurance. It recognized: first, that insurance has some problems peculiar to that industry; second, that many

states had adopted regulatory systems tailored to the insurance business in their boundaries; and, third, that any attempt to superimpose the general laws regulating commerce on these systems would create great confusion.

The proviso applies only to the provision immediately preceding it. *Dahlberg v. Young* (1950) Minnesota 42 N. W. 2nd 570. It provides an exception to the general statement preceding it, which exception is that the three Acts named therein shall, after January 1, 1948, apply to the business of insurance,—but only to the extent that such business is not regulated by state law. This proviso was adopted to answer criticism of the original House bills, which provided simply that certain laws shall not apply to the business of insurance or to acts in the conduct of that business. In other words, in the original bills, the House proposed to wash its hands of the whole matter, regardless of whether any particular state had provided regulation. The final version, which was accepted by the House without objection, simply conditioned Federal withdrawal from the field on the fact that the particular state had provided regulatory laws. In view of the strong stand taken by the House in favor of continued state regulation, it does not seem reasonable that it would have accepted, without question, this final version, if (as claimed by the majority) such version set up concurrent jurisdiction, with the Federal power paramount to the state power.

What Congress had in mind is further illustrated by Section 3(a) which provides that until January 1, 1948, the antitrust laws should in no event apply to the business of insurance. The majority claim that the purpose of this moratorium was to give the states time “in which to design

a reasonable area of state police power. Beyond that reasonable area, states could not go.”

That view is based on a misconception of the state police power. That power was reserved to the states by the Constitution. It is not up to the Congress to determine whether it is exercised reasonably. Whether exercised reasonably or not, this power is subject, at all times, to the paramount power of the Federal government under the commerce clause and other constitutional provisions not involved here; and in case of conflict, the question is resolved by the Federal government and not by the states. The whole purpose of the McCarran Act was to express the Congressional intent that the barrier of paramount power under the commerce clause was to be removed in the event that the states did adopt regulatory laws. The purpose of the moratorium was to give the states time to adopt such laws. Failing to do so in any particular area, the Federal power would still remain.

Section 3(b) provides:

“Nothing contained in this Act shall render the said Sherman Act inapplicable to any agreement to boycott, coerce, or intimidate, or act of boycott, coercion or intimidation.”

The *South-Eastern Underwriters* case involved a boycott by a number of insurance companies operating in several states. The Congress concluded that the paramount power of the Federal government in such cases should remain.

The fact that Section 3(b) is in the law is a strong argument against the interpretation urged by the majority. If the McCarran Act left the Federal government and the

states with concurrent powers (in which the Federal power would necessarily be paramount), why was it necessary to include Section 3(b)?

The legislative history of the McCarran Act strongly supports our interpretation of the jurisdictional feature.

While the *South-Eastern Underwriters* case was pending in the Supreme Court, bills were introduced in the House, providing for the unqualified exemption of insurance from the Sherman and Clayton Acts. Thereafter, and after considering suggestions by representatives of the National Association of State Insurance Commissioners, and also by representatives of the insurance industry, bills were introduced both in the House and Senate, which bills, with some minor modification, eventually became the McCarran Act. In some respects, these bills further limited the control of Congress, as, for example, in the inclusion of the Federal Trade Commission Act. In other respects, the Federal authority was broadened to retain control, in all cases where state regulation did not exist. The law, as finally passed, is clear on this point; regulation shall remain in the states with the exception of the boycott situation, and with the exception of those situations where a state either did not or could not adopt the necessary regulations.

There is literally no evidence to the contrary. Note the following excerpts from the Senate debate.

Senator Murdock: "And it is intended that on the expiration of the moratorium, the Sherman Act, the Clayton Act, and the other acts mentioned will again become effective, except—."

Senator McCarran: "Except as the states themselves have provided regulation."

Senator Pepper: "States may determine whether or not the Sherman and other acts become applicable to the business of insurance?"

Senator McCarran: "Yes."

What was done after the adoption of the McCarran Act indicates that the persons concerned had no doubt about the meaning of the Act. The National Association of State Insurance Commissioners prepared a model code for the regulation of the insurance business in accordance with the directions of Congress. This code has been adopted by a majority of the state legislatures. Other states have adopted laws which in effect are equivalent.

It is difficult to understand why these actions should have been taken if the parties thereto thought that the net result would leave the law as it was just prior to the McCarran Act, which is the contention of the majority in this case.

The McCarran Act has been considered in four Federal court cases. In none of them, did the court experience any difficulty in determining what the McCarran Act meant. In the *Sylvanus* case, the court said:

"It is clear, we think, that by this legislation, the Congress established a public policy upon the part of the national government to refrain from interference with the regulation and taxation of insurance companies by the several States."

In *Maryland Casualty Company v. Cushing* (1953) 347 U. S. 409, the Supreme Court said:

"Even the most cursory reading of the legislative history of this enactment (McCarran Act) makes it clear that its exclusive purpose was to counteract any adverse effect that the court decision in the South-

Eastern Underwriters case might be found to leave on state regulation of insurance.”

The Court then quotes from House Report No. 143, 79th Congress, 1st Session, as follows:

“It is not the intention of Congress in the enactment of this legislation to clothe the states with any power to regulate or tax the business of insurance beyond that which they had been held to possess prior to the decision in the South-Eastern Underwriters case.”

A clearer and more concise statement of the extent of the McCarran Act, and also its limitations, could hardly be found.

In *North Little Rock Transportation Co. v. Casualty Reciprocal Exchange* (1950), 181 F. 2d, 174, the Court said:

“The purpose of the McCarran Act was to permit the States to continue the regulation of the business of insurance, unhampered, to the extent provided by the Act, by Federal legislation relating to interstate commerce. See *Prudential Insurance Co. v. Benjamin*, supra, p. 429 of 328 U. S.

“In view of what was said by the Supreme Court about the effect of the McCarran Act in the *Prudential Insurance Co.* case and the case of *Robertson v. People of State of Calif.*, 328 U. S. 440, 449, 461, there is no need for discussing the validity or effectiveness of the McCarran Act. A ruling that it is invalid or ineffectual we think, would be absurd.”

The *Prudential Insurance Company* case is directly in point. There, the Prudential company challenged a statute of South Carolina which imposed on foreign insurance companies as a condition of doing business within the state, an annual tax of 3% of premiums on business done in the state.

without reference to transactions, whether interstate or local. It should be noted that the case did not involve purely intrastate matters, which the majority claim is the limit of the McCarran Act's effectiveness. This state tax was clearly discriminatory, affected interstate commerce, and would ordinarily have been stricken down. However, it was not, and the reason given was that a state tax or regulation discriminating against interstate commerce which would be invalid under the commerce clause, in the absence of action by Congress, may be validated by the affirmative action of Congress consenting thereto. The only difference between the Prudential case and the one at bar is that the former deals with state taxation and the latter with state regulation. The McCarran Act covers both.

The majority view of jurisdiction under the McCarran Act is entirely different. They say the McCarran Act "was designed to permit the states to regulate, *in the traditional manner*, the business of insurance." They obviously do not mean they are permitted to regulate it as they did prior to the *South-Eastern Underwriters* case, because their decision in this case asserts the paramount power of Federal laws over those of the states.

No law of Congress was necessary to give the states a right to carry on activities within their own borders, designed to regulate insurance. That is covered under the police power, guaranteed to the states by the Constitution. Just as Congress with reference to powers under the commerce clause, state legislatures may exercise these powers or not as they choose, subject only to their own and the Federal Constitution. The real problems arise when the exercise of these powers come in conflict with the commerce

clause. There, the Federal power is paramount. *Parker v. Brown*, 317 U. S. 34. *Southern Railway Company v. Railroad Comm. of Indiana*, 236 U. S. 439. But, as was pointed out in the latter case, Congress could have circumscribed its regulation so as to occupy a limited field. This intention to occupy a limited field is the very essence of the McCarran Act.

Just how far the majority would go in disregarding this intention is well illustrated in the case at bar. For example, suppose a state having the model code should decide that certain advertising disseminated therein did not violate the law. Nevertheless, the Federal Trade Commission asserting its paramount power to regulate the flow of commerce into the state comes to an opposite conclusion. Or suppose the state officials held the advertising was illegal, while the Federal Trade Commission held to the contrary. The majority decision does not recognize state regulation; it destroys it.

The cases cited do not support the majority position. Of course, the Federal government, under the commerce clause, may regulate the flow of lottery devices into a state, regardless of state laws on the subject. The reason is that Congress has never enacted in the lottery field an equivalent of the McCarran Act. It requires a violent stretching of the imagination to find any support in the *Sylvanus* decision. There, the defendant was indicted under a statute prohibiting the use of the mails to defraud. The power of Congress in mail fraud matters does not depend on interstate commerce; it is based on the exclusive Constitutional right to control the mails. Prior to the *South-Eastern Underwriter* case, immediately after and prior to the McCarran Act, and

under the McCarran Act, the result would have been the same. As the Court well expressed it, "This indictment does not have to do with the regulation of the insurance business in Illinois. Rather it has to do with the question of whether defendants have used the mails in pursuance of a scheme so to manipulate their authorized regulated business in Illinois as to result in fraudulent deception of its prospective policy holders. The charge is not that the corporate charter should be ignored or that the administrative officers of Illinois may not perform their statutory duties and supervise and regulate the company's insurance business in Illinois, but goes to the use of the mails over which Congress has by the Constitution paramount power and authority."

The McCarran Act arrests the overriding power of the Federal government under the commerce clause as it affects insurance, where the states have regulatory laws. Nowhere does the Act express any intention of doing the same with the power to regulate the mails, the power to enforce due process, or the many other constitutional powers.

To us, the conclusion is inescapable that under the majority view, the McCarran Act accomplished nothing. Courts will not presume that a statute was meant to have no effect. On the contrary, it will be presumed that the legislative body intended to make some change in existing laws, particularly where the whole history shows they intended to remedy what they thought was an existing evil. This rule is usually applied in situations where the over-all intent is not clearly expressed in clear language.

Here, the majority would reverse these well-known rules of statutory construction in order to prove that Congress

accomplished nothing. They, in effect, rewrite portions of the McCarran Act as follows:

That the Congress hereby declares that paramount regulation and taxation by the Federal government of the business of insurance, rather than the continued regulation and taxation thereof by the several states, is in the public interest.

Section 2 (a). The business of insurance, and every person engaged therein shall be subject to the laws of the several states which relate to the regulation or taxation of such business, only to the extent that such laws do not conflict with the paramount Federal power under the commerce clause.

Section 2 (b). Any act of Congress, whether it specially relate to the business of insurance or not, shall be construed to invalidate, impair or suspend any law enacted by any state for the purpose of regulating the business of insurance, or which imposes a fee or tax upon such business, whenever the state law conflicts with such act of Congress. The Act of July 2, 1890, as amended, known as the Sherman Act, and the Act of October 15, 1914, as amended, known as the Clayton Act, and the Act of September 26, 1914, known as the Federal Trade Commission Act, as amended, shall be applicable to the business of insurance regardless of any state regulation on the subject.

II

Our second objection to the majority opinion is that it would return the insurance business to the confusion into which it was plunged by the *South-Eastern Underwriters* decision. The nature and extent of that confusion was well expressed by the dissenting judges. The late Mr. Chief Justice Stone said:

“* * * And in view of the broad powers of the federal government to regulate matters which, though not themselves commerce, nevertheless affect interstate commerce, *Wickard v. Filburn*, 317 U. S. 111; *Polish Alliance v. Labor Board*, supra, there can be no doubt of the power of Congress if it so desires to regulate many aspects of the insurance business mentioned in this indictment.

“But the immediate and only practical effect of the decision now rendered is to withdraw from the states, in large measure, the regulation of insurance and to confer it on the national government, which has adopted no legislative policy and evolved no scheme of regulation with respect to the business of insurance. Congress having taken no action, the present decision substitutes, for the varied and detailed state regulation developed over a period of years, the limited aim and indefinite command of the Sherman Act for the suppression of restraints on competition in the marketing of goods and services in or affecting interstate commerce, to be applied by the courts to the insurance business as best they may.

“In the years since this Court’s pronouncement that insurance is not commerce came to be regarded as settled constitutional doctrine, vast efforts have gone into the development of schemes of state regulation and into the organization of the insurance business in conformity to such regulatory requirements. Vast amounts of capital have been invested in the business in reliance on the permanence of the existing system of state regulation. How far that system is now supplanted is not, and in the nature of things could not well be, explained in the Court’s opinion. The Government admits that statutes of at least five states will be invalidated by the decision as in conflict with the Sherman Act, and the

argument in this Court reveals serious doubt whether many others may not also be inconsistent with that Act. The extent to which still other state statutes will now be invalidated as in conflict with the commerce clause has not been explored in any detail in the briefs and argument or in the Court's opinion.'

The late Mr. Justice Jackson said:

"The states began nearly a century ago to regulate insurance, and state regulation, while no doubt of uneven quality, today is a successful going concern. Several of the states, where the greatest volume of business is transacted, have rigorous and enlightened legislation, with enforcement and supervision in the hands of experienced and competent officials. Such state departments, through trial and error, have accumulated that body of institutional experience and wisdom so indispensable to good administration. The Court's decision at very least will require an extensive overhauling of state legislation relating to taxation and supervision. The whole legal basis will have to be reconsidered. What will be irretrievably lost and what may be salvaged no one now can say, and it will take a generation of litigation to determine. Certainly the states lose very important controls and very considerable revenues.

"The recklessness of such a course is emphasized when we consider that Congress has not one line of legislation deliberately designed to take over federal responsibility for this important and complicated enterprise. * * *

"It is impossible to believe that Congress, if it ever intended to assume responsibility for general regulation of insurance, would have made the antitrust laws the sole manifestation of its purpose. Its only command is to refrain from restraints of trade. Intelligent insur-

ance regulation goes much further. It requires careful supervision to ascertain and protect solvency, regulation which may be inconsistent with unbridled rate competition. It prescribes some provisions of policies of insurance and many other matters beyond the scope of the Sherman Act.

“Also it requires sanctions for obedience far more effective than the \$5,000 maximum fine on corporations prescribed by the antitrust laws. Violation of state laws are commonly punishable by cancellation of permission to do business therein—a drastic sanction that really commands respect.”

The accident and health insurance industry is a large and important one; yet, it is a small part of the business of insurance. This case, under Section 5 of the Federal Trade Commission Act, involves only a matter of advertising. But Section 5 is a comprehensive section which covers many things, such as combinations and restraints under the Sherman Act and at common law, price fixing, and many other things which the Federal Trade Commission might hold to be unfair methods of competition.

As has been frequently said, insurance is a business affected with a public interest. Many years of regulation in 48 states have developed the fact that insurance has some problems peculiar to the business. One is the necessity of maintaining an industry whose financial ability to meet obligations accruing many years in the future will not be undermined by short term considerations. Consequently, the states have asserted their right to regulate the financial policies of the companies licensed to do business in their states, to demand the deposit of certain reserves, to regulate and even limit competition, to fix rates, etc. Some of the

regulations permit, or even require, cooperative action among insurance companies which could easily be contrary to the philosophy of the Federal antitrust laws.

In this connection, the majority opinion says:

“However, as we have already said, our proceeding to abate deceptive practices by such companies does not impinge on those state functions, and we do not believe that the Federal Trade Commission Act can be properly interpreted to interfere with the taxing or rate-fixing powers.”

We have already called attention to the breadth and extent of the Federal power to regulate the flow of commerce and also to the extensive power under the “affecting interstate commerce” theory to regulate matters entirely within the state which were once thought to be far removed from Federal authority. In *South-Eastern Underwriters*, the Supreme Court called attention to the many activities of a modern insurance company which involved or affected interstate commerce as we now know it. Such activities are necessarily centered in a home office. From there and to there, flows a constant stream of advertising brochures, policies, applications, statements, rate schedules, directions, etc. These have to do with all the activities of the insurance business and are not restricted to advertising.

In this case, jurisdiction is based on the admitted fact that the respondent sent bundles of advertising matter into states where it was licensed to do business. Actual dissemination of the advertising occurred entirely within the state. Except for the McCarran Act, it is clear this limited proof would sustain paramount Federal jurisdiction. Just how the majority arrive at the conclusion that similar proof

would not sustain Federal jurisdiction in taxing and rate-making matters is not clear.

In fact, the decision in *North Little Rock Transportation Co. v. Casualty Reciprocal Exchange*, *supra*, is to the contrary. That case involved an appeal from a summary judgment of dismissal of a treble damage suit. The dismissal was based upon a determination that the fixing of rates by the National Bureau of Casualty Underwriters for casualty insurance written in the State of Arkansas by the members and subscribers of the Bureau is not violative of the Sherman Act, as amended. The Court adopted the findings of the District Court, one of which was:

“3. In the absence of public regulation or Congressional exemption, the price fixing activities of the Bureau involved in this case would constitute a violation of the Sherman Act.” 85 F. Supp. 961, at p. 964.

The Circuit Court of Appeals affirmed the holding of the District Court that the McCarran Act permitted the State of Arkansas to continue the regulation of insurance in the matter of rate fixing, which regulation, without the McCarran Act, would have violated the Sherman Act.

It is our conclusion that the majority opinion would bring tremendous confusion in the insurance industry and would open the door wide to complete Federal control. We are not discussing the relative merits of Federal versus state control. All we say is that the decision belongs to Congress and not to a Federal bureau.

The hearing examiner, after applying the jurisdictional tests to which we subscribe, concluded that in all states in which respondent was licensed to do business, except Mississippi, state regulation did exist. The hearing examiner

then considered the alleged illegal advertising in Mississippi and concluded that it did not violate the Federal Trade Commission Act.

We have repeatedly pointed out that, under the McCarran Act, the Federal Trade Commission has some jurisdiction in the business of insurance. Within that jurisdiction, and in performance of duties imposed by Congress, 41 complaints have been issued. Where the Commission has jurisdiction, we would hold insurance companies to a high degree of responsibility in their dealings with the public. Consequently, we do not approve of some of the statements made by the hearing examiner in his consideration of the advertising in question.

However, that matter is not now before us. Since the filing of the initial decision, Mississippi has adopted the model code, effective as of February 29, 1956.

The law governing such a situation is clearly expressed in *United Corporation, et al. v. Federal Trade Commission* (1940), 110 F. 2d 473, as follows:

“And since the power of the Federal Trade Commission is purely regulatory and not punitive, it is clear that jurisdiction must exist at the time of the entry of its order. Jurisdiction at the time of the commission of acts objected to as unfair trade practices or at the time of the filing of the complaint with regard thereto is not sufficient; for the order to be entered does not relate to past practices or determine rights as of the time of the filing of the complaint, as in an action at law, but commands or forbids action in the future.”

In *Chamber of Commerce of Minneapolis, et al. v. Federal Trade Commission* (1926), 13 F. 2d 673, the Court said:

“As the orders of the Commission are purely remedial and preventative, the effect thereof is entirely in the future. Therefore, the jurisdiction of the Commission should, in this respect, be measured as of the time of the order rather than as of the filing of the complaint or as of the hearing thereon.”

It thus appears that in every state involved in this case, state regulation now prevents further action by the Commission.

In accordance with the views expressed in this dissent, we would deny the appeal and dismiss the complaint.

April 24, 1956.

UNITED STATES OF AMERICA
BEFORE FEDERAL TRADE COMMISSION

In the Matter of
THE AMERICAN HOSPITAL AND LIFE
INSURANCE COMPANY, a corporation.

Docket No. 6

ADDITIONAL VIEWS OF COMMISSIONER MASON

The issues here resolve itself basically into that ever fundamental question—states' rights versus centralized government.

Our problem is not the determination of which philosophy is right—that is a legislative function. Our sole duty is to determine which road Congress has directed us to follow in the instant matter.

In my opinion, if the rationale on which the majority bases its decision in this case stands, it must of necessity follow that the Federal Government has almost unlimited control over the management of the insurance business.

This would apply not only to false advertising of health and accident policies, the present center of our attention in 41 cases, but would include all other aspects of the business of insurance, such as the approval of policy forms, the establishment of rates, the maintenance of reserves, the regulation of agency commissions, and the countless other components of the internal management of any single company or companies.

To transfer in one fell swoop the control of every phase of the business of insurance, whether regulated or not by state law, to the Federal Government when crossing state lines is to flout the expressed intent of Congress.

April 24, 1956.



No. 14,972

IN THE

**United States Court of Appeals
For the Ninth Circuit**

JAMES F. CRAFTS,

vs.

FEDERAL TRADE COMMISSION,

Appellant,

Appellee.

On Appeal from an Order Enforcing Subpoena.

**BRIEF FOR INSURANCE COMMISSIONER OF THE STATE
OF CALIFORNIA AND THE ATTORNEY GENERAL
OF THE STATE OF CALIFORNIA,
AS AMICI CURIAE.**

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No. 14,972

IN THE

**United States Court of Appeals
For the Ninth Circuit**

JAMES F. CRAFTS,

Appellant,

vs.

FEDERAL TRADE COMMISSION,

Appellee.

Appeal from the United States District Court for the
Northern District of California,
Southern Division.

**BRIEF FOR INSURANCE COMMISSIONER OF THE STATE
OF CALIFORNIA AND THE ATTORNEY GENERAL
OF THE STATE OF CALIFORNIA,
AS AMICI CURIAE.**

INTRODUCTORY.

Pursuant to information furnished by the Clerk of this Court, that this Court follows the United States Supreme Court rule allowing the Attorney General of a state to file an amicus curiae brief in any cause in respect to which the law of his state is involved and where the state correspondingly has an interest, without previously procuring permission of the Court, this brief is filed in the above cause. In the event

formal permission is required, it is prayed that such permission be granted and this brief filed accordingly.

However, this is not the first appearance of the Attorney General as counsel for the Insurance Commissioner in this cause. Permission to file such a brief in the event the matter came to the briefing stage was sought and granted in the proceeding before the Federal Trade Commission (Record, 27).

It is for these amici curiae briefly to explain the vital State interest developed in this cause as they view it. That explanation will also explain why this filing has been delayed until after the filing of the brief for appellee in the cause.

The reason and explanation of the primary interest of the State of California, and correspondingly of its officers represented by this brief, is in the vindication of the power of the State of California to control its domestic insurance companies by and through its police power regulations, statutory or administrative.

The Insurance Commissioner of the State of California requested that the Attorney General appear in this cause for the purpose of assisting the Court by expressing the State's views on the question involved. The Attorney General, being the principal law enforcement agent for the State of California, has determined not to engage in a jurisdictional dispute with a federal law enforcement agency in connection with regulation of a California insurance company. Consequently, although this brief will refer to, and possibly discuss somewhat, the problems involved in the issue of exclusive State jurisdiction which has been

tendered by appellant, the primary purpose of the brief is to develop, for the assistance of the Court, the law governing the State of California in respect to its own power over its own corporate creatures, its California insurers. If, under the terms of the McCarran Act, the extent of this power is such that the Federal Trade Commission Act is not applicable to these insurers, that is a matter for the parties to argue and this Court to determine. The vital interest of the State is in the vindication of its own power rather than to squabble over the jurisdiction of a federal agency which, under the terms of the McCarran Act, appears to be granted a somewhat limited jurisdiction. Consequently this brief could not be filed until the appellee in its brief indicated whether or not its contentions as to the power granted the Federal Trade Commission—not the scope of the Congressional power, as to which there appears to be no issue in this case—was bottomed on any claim of a lack of applicable regulation by the State of California in respect to the subject matter here involved.

Unfortunately, while appellee does not appear to clearly state its contentions in this respect, it does appear to bottom its claim of jurisdiction upon the theory that sections 780, et seq. of the California Insurance Code cannot have extraterritorial effect:

“We do not argue that the California statute is unconstitutional, but appellant’s interpretation of the California statute attempts to give it an extraterritorial effect which even the cases cited by appellant . . . do not sustain” (Br. for Appellee, pp. 16-17).

Nor is appellee's contention made clearer by quotations from *St. Louis Cotton Compress Co. v. Arkansas*, 260 U.S. 346, relating to lack of state power over foreign corporations, and from *United States v. South-Eastern Underwriters Association*, 322 U.S. 533, relating to congressional power (Br. for Appellee, p. 17), inasmuch as it is California's regulation of a domestic insurer that is here involved. It is not congressional power but the extent of the jurisdiction which Congress has delegated to the Federal Trade Commission which is, presumably, the issue.

The power of the United States, as we understand it, is not questioned. The *South-Eastern Underwriters Association* case seems to have settled that.

But that case, and the cases succeeding, make it quite clear that neither the Supreme Court, in that case, nor Congress under the McCarran Act, intended that the relationships of the federal and state regulatory agencies to insurance business would be the same as such relationships in the case of a number of other businesses (*United States v. South-Eastern Underwriters Association*, 323 U.S. 533, 562; *Prudential Ins. Co. v. Benjamin*, 328 U.S. 408, 431-436; *Robertson v. California*, 328 U.S. 440, 462). This brief, therefore, is written solely for the purpose of upholding in this Court the State's contention that misrepresentation in advertising by an insurer domestic to California is regulated by sections 780 and following of the California Insurance Code; that this regulation follows and applies to such domestic insurer in every state or territory in which it does business; and that this extra-

territorial effect of that regulation is in accord with the Constitution of the United States and its laws as interpreted by the United States Supreme Court.¹

¹The advisability of presenting in this case the law supporting this principle was forcibly impressed upon amici curiae here by the sweeping expressions of the majority of the appellee commission in their Docket No. 6237, *In the Matter of the American Hospital and Life Insurance Co.*, this last April 24th: "Certainty the States lack the power to tax or regulate purely interstate activities of insurance companies. It can only be that the section (McCarran Act) provides that State authority over *intrastate* insurance business that might affect interstate insurance business could not be disturbed by Federal legislation which did not specifically mention insurance" (Typed Opinion p. 4. That Matter, like the instant cause, concerned only advertising by an insurance company).

Since the Commission is not a judicial body (*Federal Trade Com'n v. Eastman Kodak Co.*, 274 U.S. 619), such assumptions of legal principles by such an administrative agency should lack even persuasive power in this or any other court. Yet such peculiar administrative pronouncements do illustrate the necessity for state participation in cases of this nature to assist the Court, so far as lies in counsel's power, to avoid disturbance of such long-standing "pre-McCarran Act" legal principles as the right of the state to tax interstate remittances related to transactions partly within the State (*Equitable Life Society v. Pennsylvania*, 238 U.S. 143; *Compania General de Tabacos v. Collector*, 275 U.S. 87, 98), or based upon jurisdiction over a domestic corporation (*Guardian Life Ins. Co. v. Chapman*, 302 N.Y. 226, 97 N.E.2d 877; *Western Travelers Acc. Assn. v. Johnson*, 14 Cal.App.2d 306, 58 Pac.2d 206, Cal. Supreme Ct. hear. den.) and the power to enforce state-promulgated standards having extraterritorial impact upon insurance companies where a proper local interest appears (*Hoopston Canning Co. v. Cullen*, 318 U.S. 313; *State Farm Mut. Auto. Ins. Co. v. Deuel*, 324 U.S. 154).

I.

SECTIONS 780 AND 781 OF THE CALIFORNIA INSURANCE CODE PROMULGATE RULES OF CONDUCT WHICH COVER ADVERTISING BY CALIFORNIA INSURERS AND WHICH ARE NOT INTENDED TO BE LIMITED IN THEIR EFFECT TO CONDUCT WITHIN THE STATE OF CALIFORNIA.

There would seem to be no question that misrepresentation in advertising is included in the misrepresentations forbidden by sections 780 and 781 of the California Insurance Code.² In *United Insurance Co. v. Maloney*, 127 Cal.App.2d 155, 273 Pac.2d 579, the court points out that the accusations "resolve themselves into a claim that in its advertisements, circulars and in the representations by the agents the policies are represented as covering all sickness and health and no mention is made of the exceptions . . ." (127 Cal.App.2d 155, 156, 273 Pac.2d 579).

²Sec. 780

An insurer or officer or agent thereof, or an insurance broker or solicitor, shall not cause or permit to be issued, circulated or used, any misrepresentation of the following:

(a) The terms of a policy issued by the insurer or sought to be negotiated by the person making or permitting the misrepresentation.

(b) The benefits or privileges promised thereunder.

(c) The future dividends, payable thereunder.

Sec. 781

A person shall not make any misrepresentation (a) to any other person for the purpose of inducing, or tending to induce, such other person either to take out a policy of insurance, or to refuse to accept a policy issued upon an application therefor and instead take out any policy in another insurer, or

(b) To a policyholder in any insurer for the purpose of inducing or tending to induce him to lapse, forfeit or surrender his insurance therein.

A person shall not make any representation or comparison of insurers or policies to an insured which is misleading, for the purpose of inducing or tending to induce him to lapse, forfeit, change or surrender his insurance, whether on a temporary or permanent plan.

Likewise, during the years 1952 and 1953 accusations were issued, and proceedings taken, by the California Insurance Commissioner, against a number of both domestic and foreign insurance companies, arising out of complaints or misrepresentations in advertising.³

Particularly to be noted is the rather careful draftsmanship of the California Insurance Code regulatory provisions (1) in respect to their application to domestic and foreign insurers, and (2) in respect to such application of the provisions thereof to California only, or to California together with other states in which the insurer may be operating.

Examples of this draftsmanship and the consequent clarity of meaning as to application are found particularly in sections 703, 704, 801, 827, 880, 1010, and 1153 of the Code.

Section 704,⁴ for instance, deals with the general conduct of the business. It obviously refers to any

³In the Matter of the Certificate of Authority of . . . Hearthstone Insurance Company of Massachusetts, No. S.F.6683 ABP; In the Matter of the Certificate of Authority of . . . Westland Insurance Co., No. SF-4228 ABC-P; In the Matter of the Certificate of Authority of . . . World Insurance Company of Omaha, Nebraska, No. S.F.4259-ABC.P; In the Matter of the Certificate of . . . National Travelers Insurance Company, No. LA-5947; In the Matter of the Certificate of Authority of . . . Constitution Life Insurance Co., No. SF 3333-CP. All the foregoing were administrative proceedings before the California Department of Insurance. Some are still in litigation in the California courts, but in none of these matters was there any contention made that section 780 of the Insurance Code does not appertain to advertising.

⁴Sec. 704

The commissioner may suspend the certificate of authority of an insurer for not exceeding one year whenever he finds, after proper

insurance company, whether foreign or domestic, and applies to any business that company does, whether in or out of the state.

Section 703⁵, on the other hand, by its terms is limited to certain business "when done in this state".

Section 801⁶ expressly applies to "admitted" insurers, the term "admitted" being defined by section 24 of the Code to apply to the status of being able to transact insurance business in the State of Cali-

hearing following notice, that such insurer engages in any of the following practices:

- (a) Conducting its business fraudulently.
- (b) Not carrying out its contracts in good faith.
- (c) Habitually and as a matter of ordinary practice and custom compelling claimants under policies to either accept less than the amount due under the terms of the policies or resort to litigation against such insurer to secure the payment of the amount due.

The order of suspension shall prescribe the period of such suspension.

The proceedings shall be conducted in accordance with Chapter 5 of Part 1 of Division 3 of Title 2 of the Government Code, and the commissioner shall have all the powers granted therein.

⁵Sec. 703

Except when performed by a surplus line broker, the following acts are misdemeanors when done in this State:

- (a) Acting as agent for a non-admitted insurer in the transaction of insurance business in this State.
- (b) In any manner advertising a non-admitted insurer in this State.
- (c) In any other manner aiding a non-admitted insurer to transact insurance business in this State.

In addition to any penalty provided for commission of misdemeanors, a person violating any provision of this section shall forfeit to this State the sum of five hundred dollars, together with one hundred dollars for each month or fraction thereof during which he continues such violation.

⁶Sec. 801

Except as provided by this article, an admitted insurer shall not cause to be executed or renewed any contract of insurance covering subject matter located in this State at the time of execution or renewal except either (a) through a resident agent, or (b) after approval in writing by such an agent.

ifornia. Consequently, it applies to licensed companies whether foreign or domestic and, not being limited to acts within the State, is applicable to contracts involved wherever written so long as an admitted insurer is a party.⁷

Section 880,⁸ again, expressly refers to business "in this state".

But section 1010⁹ would apply the conservatorship and liquidation law to both foreign and domestic insurers, and the acts specified in section 1011¹⁰ ob-

⁷Extraterritorial application approved of a similar statute in *Osborn v. Ozlin*, 310 U.S. 53.

⁸Sec. 880.

Except as provided in this article, every insurer shall conduct its business in this State in its own name.

⁹Sec. 1010

The provisions of this article shall apply to all persons subject to examination by the commissioner, or purporting to do insurance business in this State, or in the process of organization with intent to do such business therein, or from whom the commissioner's certificate of authority is required for the transaction of business, or whose certificate of authority is revoked or suspended.

¹⁰Sec. 1011

The superior court of the county in which is located the principal office of such person in this State shall, upon the filing by the commissioner of the verified application showing any of the following conditions hereinafter enumerated to exist, issue its order vesting title to all of the assets of such person, wheresoever situated, in the commissioner or his successor in office, in his official capacity as such, and direct the commissioner forthwith to take possession of all of its books, records, property, real and personal, and assets, and to conduct, as conservator, the business of said person, or so much thereof as to the commissioner may seem appropriate, and enjoining said person and its officers, directors, agents, servants, and employees from the transaction of its business or disposition of its property until the further order of said court:

(a) That such person has refused to submit its books, papers, accounts, or affairs to the reasonable inspection of the commissioner or his deputy or examiner.

viously may take place in California or elsewhere.¹¹

Again, note the careful specification of the application and subject matter illustrated by sections 1150, 1151.6, 1152, and 1153.¹² Others could be cited. Thus

(b) That such person has neglected or refused to observe an order of the commissioner to make good within the time prescribed by law any deficiency in its capital if it is a stock corporation, or in its reserve if it is a mutual insurer.

(c) That such person, without first obtaining the consent in writing of the commissioner, has transferred, or attempted to transfer, substantially its entire property or business, or, without such consent, has entered into any transaction the effect of which is to merge, consolidate, or reinsure substantially its entire property or business in or with the property or business of any other person.

(d) That such person is found, after an examination, to be in such condition that its further transaction of business will be hazardous to its policy holders, or creditors, or to the public.

(e) That such person has violated its charter or any law of the State.

(f) That a certificate of authority of such person has been revoked under section 10711.

(g) That any officer of such person refuses to be examined under oath, touching its affairs.

(h) That any officer or attorney-in-fact of such person has embezzled, sequestered, or wrongfully diverted any of the assets of such person.

(i) That a domestic insurer does not comply with the requirements for the issuance to it of a certificate of authority, or that its certificate of authority has been revoked; or

(j) That the last report of examination of any person to whom the provisions of this article apply shows such person to be insolvent within the meaning of Article 13, Chapter 1, Part 2, Division 1 of this Code.

¹¹So held in *Rhode Island Insurance Co. v. Downey*, 95 Cal. App.2d 220, 212 Pac.2d 965.

¹²Sec. 1150

“Every admitted incorporated insurer may purchase, hold, or convey real estate only for the following purposes and in the following manner:

(a) The building in which it has its principal office and the land upon which that building stands.

(b) Real estate requisite for its accommodation in the convenient transaction of its business.

(c) Real estate acquired by it, or by any person for it, to secure the payment of loans previously contracted or for moneys due.

it is clear that the provisions of sections 780 and 781 beyond question apply to the activities of the California domestic insurers regardless of whether within or without California.

II.

CALIFORNIA HAS THE POWER AND JURISDICTION TO MAKE ITS REGULATIONS OF ITS DOMESTIC INSURERS' CONDUCT APPLICABLE WHEREVER THE INSURER DOES BUSINESS. OTHER JURISDICTIONS WHICH PERMIT THEM TO TRANSACT BUSINESS THEREIN MUST ACCEPT THIS AS A CHARACTERISTIC OF A CALIFORNIA INSURER PERMITTED TO DO BUSINESS IN THAT JURISDICTION.

The Supreme Court has repeatedly sustained the above principle.

Relf v. Rundle, 103 U.S. 222;

Canada Southern v. Gebhard, 109 U.S. 527;

(d) Real estate purchased at sales upon deeds of trust or upon judgments or decrees obtained for such loans or debts.

(e) Real estate conveyed to it in satisfaction of debts previously contracted in the course of its dealings.

(f) Real estate acquired by gift or devise.

(g) Real estate acquired in part payment of the consideration of the sale of real property owned by it, if each such transaction shall not effect an increase in its investment in such real property.

(h) Upon the written approval of the Insurance Commissioner, real estate requisite or desirable for the protection or enhancement of the value of other real or personal property owned by such insurers.

(i) Real estate and improvements thereon under the provisions and subject to the conditions and limitations of Section 1194.8."

Sec. 1151.6

"Every admitted incorporated insurer may, for the protection or enhancement of the value of real property acquired under the provisions of section 1150, use its funds in such manner as it shall deem proper to repair, alter, remodel, rehabilitate, demolish, purchase furnishings or other personal property for use in or otherwise to improve such real estate."

Royal Arcanum v. Green, 237 U.S. 531;
Modern Woodmen v. Mixer, 267 U.S. 544.

The case of *Relf v. Rundle*, *supra*, perhaps is the outstanding example of the "charter provision" principle embodied in all the above cases. This is, of course, that the laws of the corporate domicile enter into and are part of its charter and that other jurisdictions into which it is permitted to enter and do business accept these laws as applicable to the powers and restrictions upon the corporation.

Sec. 1152

"Domestic incorporated stock insurers, except those governed by sections 3016, 10530, 12373 and 12465 of this code, shall be governed exclusively by the provisions of this section as to payment or distribution of dividends to stockholders. Such insurers may make dividends only from the surplus of admitted assets in excess of the aggregate of the following:

(a) The aggregate par value of the entire issued or subscribed shares;

(b) A surplus equal to fifty (50) per centum of the aggregate par value of the entire issued or subscribed shares;

(c) A premium reserve on policies in force at least equal to the unearned portions of the gross premiums charged for covering the risks computed by such method as is provided in this code, prescribed by the commissioner in absence of such provision, or on a prorata basis in the absence of such provision or prescription;

(d) Proper reserves for expenses, taxes, and outstanding losses computed as set forth in this code;

(e) Proper reserves for all other liabilities. No dividends shall be declared out of such surplus derived from the mere appreciation in the value of assets not yet realized, nor shall any dividends be declared from any part of such surplus derived from an exchange of assets, unless and until such profits have been realized or unless the assets received are currently realizable in cash."

Sec. 1153

"An insurer shall not be admitted within three years from and after the time when it commences business as an insurer, nor

In that case a law of one state making an officer of that state successor to a defunct insurance company was held to authorize that officer to go into another state and exert that ownership by suit in the courts of the second state, without express permission from the courts or by other law of the second state.

within three years from and after the time when it is first incorporated, unless assets equal to the sum of its liabilities and the minimum capital and surplus required for admission are maintained in cash or one or more of the following:

- (a) Securities specified in Sections 1170 to 1175, inclusive;
- (b) Bonds specified in Section 1176 if such bonds are legal for investment of savings banks in this State;
- (c) Such securities specified in Sections 1178 to 1202, inclusive, as are legal for investment of savings banks in this State;
- (d) Premiums in course of collection, or agents' balances representing premiums, on policies effected not more than 90 days prior to the date on which such premiums or balances are valued for the purpose of this section, and earned service fees receivable, not over 90 days due, and evidences of debt representing such assets;
- (e) In the case of a life insurer, the amount of current deferred premiums receivable, after deducting therefrom the amount of the loading;
- (f) Interests accrued and dividends declared, receivable on any of the assets specified in subdivisions (a) to (e), inclusive, no part of which interest or dividends has been due in excess of one year;
- (g) Amount of reinsurance recoverable from admitted insurers."

III.

SECTION 780 PRESCRIBES A CONDITION TO BE MAINTAINED FOR THE CONDUCT OF AN INSURANCE BUSINESS AS A WHOLE. THE APPLICATION OF SUCH A STANDARD OF DOING BUSINESS IN A STATE HAS BEEN SUSTAINED EVEN AS TO INSURERS FOREIGN TO THAT STATE. THERE IS NO QUESTION OF ITS APPLICATION TO INSURERS DOMESTIC TO CALIFORNIA.

Since this case involves an insurer domestic to California, there should be no difficulty in sustaining the principle here concerned, for obviously California's power over her own domestic corporations is no less than her power over foreign corporations doing business in this state.

Section 780, like Section 704, of the California Insurance Code prescribes a standard of honesty and fair dealing between insurance companies and their insureds or applicants for insurance. Certainly these standards are a reasonable requirement for doing business in the State of California, as important to the protection of its citizens as the requirements that reserves on out-of-state insurance business be maintained by a foreign insurer in an out-of-state office, and that such reserves meet specified minimum standards. These last requirements have been held to be within the ambit of state power. *State Farm Mutual Insurance Co. v. Deuel*, 324 U.S. 154.

California, as stated above, can establish certain standards applicable to any insurance company doing business in California in order to protect the citizens of California. These standards naturally apply to a domestic insurer such as Fireman's Fund, but in ap-

plying these standards to a domestic insurer California is interested not only in the protection of the citizens of California but is also interested in the growth and safety of the company. The fact that the application of these standards may affect business or interests in other states has been sustained against constitutional objection.¹³

Hoopston Canning Co. v. Cullen, 318 U.S. 313,
319-321;

Robertson v. California, 328 U.S. 440.

CONCLUSION.

It is respectfully submitted that whatever jurisdiction the Federal Trade Commission may have, if any, over the appellant under the Federal Trade Commission Act, such jurisdiction cannot rest either upon the lack of applicable state regulation of appellant's

¹³This, of course, does not mean that there are no restraints upon the state's control of foreign insurers in respect to extraterritorial acts. However, the *St. Louis Cotton Compress Co.* case and *Allgeyer v. Louisiana* case, cited by appellee as limiting extraterritorial application of state regulations to *foreign* insurers (Br. for Appellee, p. 19), have always been put to one side when urged to strike down *extraterritorial* application of state power to protect a legitimate interest of the citizens of the state. Certainly the requirement of honesty in dealing with prospective insureds, everywhere, the requirement of section 780, California Insurance Code, is such an interest. *Osborn v. Ozlin*, 310 U.S. 53; *State Farm Mutual Insurance Co. v. Deuel*, 324 U.S. 154; *Compania General de Tabacos v. Collector*, 275 U.S. 87, 98.

advertising, or upon any lack of California's jurisdiction over the appellant to enact and enforce such regulation.

Dated, San Francisco, California,
May 28, 1956.

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In the
United States
Court of Appeals
For the Ninth Circuit

JAMES F. CRAFTS, *Appellant,* }
v. } No. 14972
FEDERAL TRADE COMMISSION, *Appellee.* }

ON APPEAL FROM AN ORDER
ENFORCING SUBPOENA

Brief for the Insurance Commissioner of the State
of Washington and the Attorney General of the
State of Washington, as Amici Curiae.

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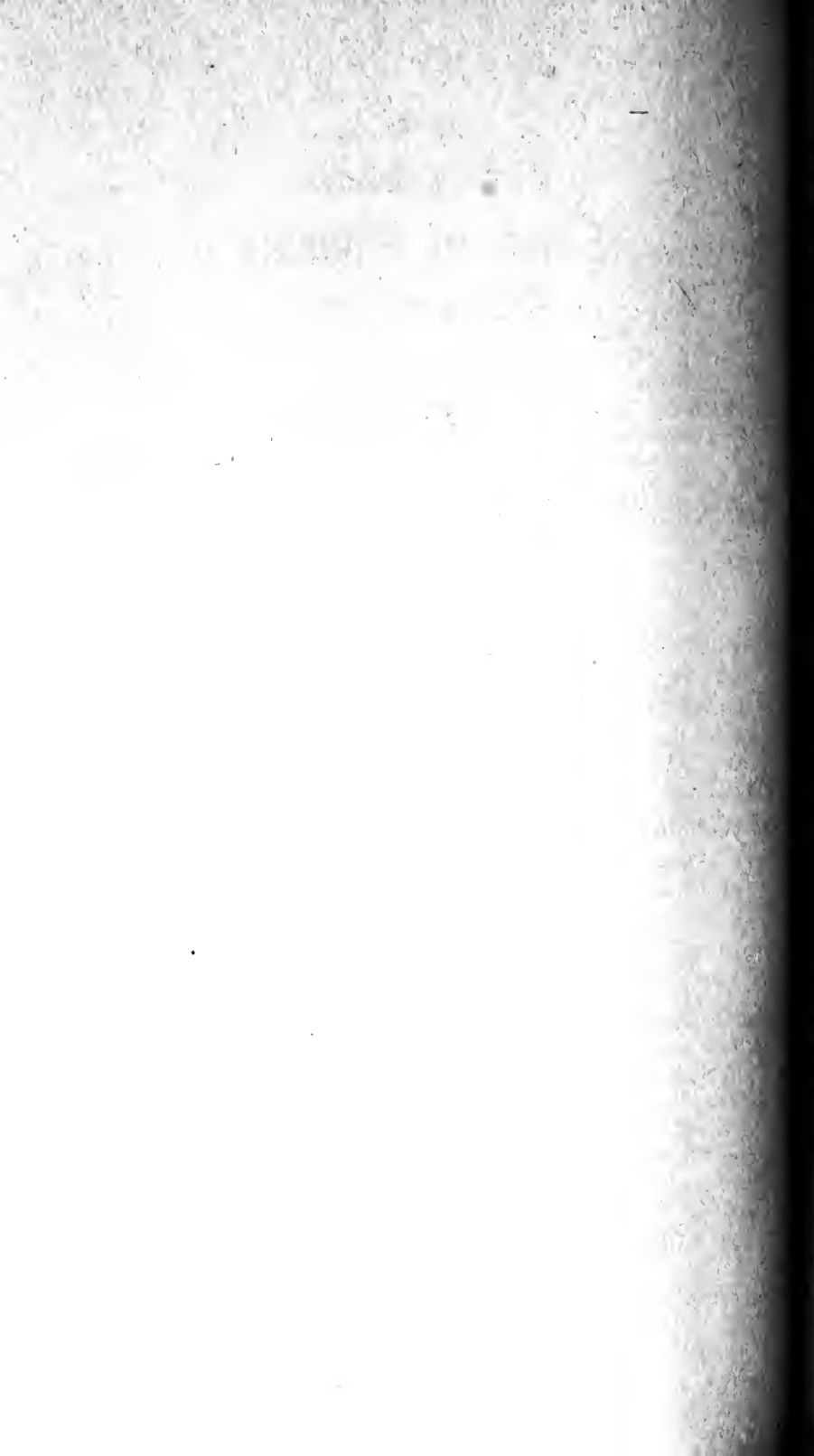
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State of Washington, as Amici Curiae.**

INTRODUCTION

In deciding the above entitled cause, this Court may find it necessary to determine an issue of law which, in the opinion of *amici curiae*, is of primary concern to the State of Washington. To assist the Court in making this determination the Insurance Commissioner of the State of Washington requested the Attorney General to file an *amicus curiae* brief explaining the interest of the State in the cause now before the Court and expressing the views of the State respecting the legal question involved.

In such cases we have been advised that this Court, following the practice of the United States Supreme Court, allows the State Attorney General to file an *amicus curiae* brief without having previously secured the Court's permission to do so. Accordingly, this brief is filed in the above entitled cause.

Appellant, who is the president of Fireman's Fund Indemnity Company, a California corporation, opens his reply brief with the following statement and question :

"The primary issue in this case involves Public Law 15, 79th Congress (sometimes called the 'McCarran Act'), which says that the Federal Trade Commission Act is applicable to the business of insurance 'to the extent that such business is not regulated by State law.' Query: Does the Federal Trade Commission have jurisdiction over advertising of accident and health insurance in any state where such advertising is 'regulated by State law'?"

The State of Washington is vitally interested in the determination of this issue in so far as it pertains to Federal Trade Commission regulation of advertising practices carried on within this State by out-of-state insurance companies authorized to do business in Washington. Fireman's Fund Indemnity Company is permitted to carry on the business of insurance in Washington. In so doing, the company advertises its health and accident policies in this State. The State of Washington seeks to protect what it regards as its exclusive jurisdiction under

the McCarran Act to regulate such advertising in Washington.

In pursuance of this vital state interest, *amici curiae* will argue that under the terms of the McCarran Act appellee has not been empowered by the Congress to regulate insurance advertising in any State which has enacted laws regulating such advertising. Inasmuch as the State of Washington has enacted laws regulating the advertising practices of insurance companies doing business in this State, we contend that the Federal Trade Commission has no jurisdiction to regulate such advertising in Washington.

For purposes of this brief we feel that the legitimate interest of the State of Washington is confined to the issue involving the effect of the McCarran Act. For this reason *amici curiae* express no opinion upon any other question in this case.

STATEMENT OF THE QUESTION INVOLVED

In view of the laws of the State of Washington regulating insurance advertising, does the Federal Trade Commission have jurisdiction to regulate advertising within the State of health and accident policies issued by out-of-state insurance companies authorized to do business in the State of Washington?

ARGUMENT

I.

Where a State has enacted laws regulating insurance advertising, the McCarran-Ferguson Insurance Regulation Act makes it plain that the Federal Trade Commission is without jurisdiction to regulate such advertising in that State.

Under Section 2(b) of the McCarran-Ferguson Insurance Regulation Act, Public Law 15, 79th Congress (59 Stat. 33, 61 Stat. 448, 15 U. S. C. 1011 through 1015), hereafter called the McCarran Act, the Federal Trade Commission Act (38 Stat. 722, 15 U. S. C. 41, *et seq.*), was made "applicable to the business of insurance to the extent that such business is not regulated by State law." *Amici curiae* contend that under the McCarran Act the test of the Federal Trade Commission's power to regulate any phase of the insurance business is simply whether or not the matter sought to be regulated by the Commission is subject to regulation under the existing laws of the State involved. For example, if an insurance company in advertising its health and accident policies in Washington resorts to false, deceptive or misleading statements, such advertising is subject to Federal Trade Commission regulation only in the event that the laws of the State of Washington contain no provision regulating the use of insurance advertising within this State. We think this is the plain meaning of the McCarran Act.

There can be no doubt that Congress enacted the

McCarran Act to settle the confusing problems confronting state regulatory agencies and insurance companies as a result of the United States Supreme Court's decision in *United States v. South-Eastern Underwriters Association et al.*, 322 U. S. 533, 64 S. Ct. 1162; 88 L. Ed. 1440 (1944). In that case the Supreme Court held that insurance was commerce, thereby overruling its decision to the contrary in *Paul v. Virginia*, 8 Wall. 168, 19 L. Ed. 357 (1869), which had prevented Federal regulation of insurance for a period of seventy-four years.

During that long period many of the States had enacted comprehensive legislation in the public interest regulating the conduct of insurers doing business in those States. By the time the *South-Eastern Underwriters* decision was handed down, state regulation of insurance had become firmly established. Moreover, there was no constitutional impediment or barrier to state regulation inasmuch as insurance had not theretofore been considered as commerce. Since the commerce clause had no application to insurance, there was no necessity to determine whether a certain phase of the insurance business was to be characterized either as interstate or intrastate commerce. The applicability of state regulatory legislation hinged only upon a simple finding that the matter sought to be regulated had a necessary relationship to the conduct of an insurer doing business in the State involved.

With the advent of the *South-Eastern Under-*

writers case, however, there arose a number of perplexing problems in determining the extent to which the States could continue to regulate the insurance business. If a given matter was found to be a transaction in interstate commerce, could the States regulate that matter even in the absence of Federal legislation applicable to the same subject? What if the matter were found merely to "affect" interstate commerce? Questions of this kind had now become of crucial importance to insurance companies as well as to state administrators charged with the duty of enforcing state regulatory laws.

To settle the confusion resulting from the *South-Eastern Underwriters* decision, and, indeed to eliminate the vexing constitutional problems caused thereby, Congress passed the McCarran Act which opens with the following language:

"Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the Congress hereby declares that the continued regulation and taxation by the several States of the business of insurance is in the public interest, and that silence on the part of the Congress shall not be construed to impose any barrier to the regulation or taxation of such business by the several States."

This statement indicates quite clearly that Congress, despite the opportunity afforded it by the *South-Eastern Underwriters* case, decided to reject the possibility of enacting Federal legislation comprehensively regulating insurance. Instead regulation un-

der State law was to be continued unhampered by any constitutional inhibitions that might be thought to exist as a result of Congress' silence respecting regulation of the interstate aspects of the insurance business. Thus the McCarran Act was designed to give support to the existing systems of state regulation and to relieve the States from the necessity of grappling with the complexities arising under the commerce clause as a result of the *South-Eastern Underwriters* decision. Section 2 of the Act therefore provided in part:

“(a) The business of insurance, and every person engaged therein, shall be subject to the laws of the several States which relate the regulation or taxation of such business.

“(b) No Act of Congress shall be construed to invalidate, impair, or supersede any law enacted by any State for the purpose of regulating the business of insurance, * * * .”

However, Congressional silence regarding the regulation of insurance was not to be complete. Inasmuch as at the time the McCarran Act was passed some States had no legislation regulating the business of insurance, Section 3(a) of the Act in effect extended to the States a period of approximately three years to enact regulatory legislation. During that period certain previously enacted Federal regulatory statutes of application to business generally, such as the Federal Trade Commission Act, were made inapplicable to the business of insurance. At the expiration of this moratorium period, the Federal Trade Commission Act, in addition to other stat-

utes specifically mentioned, was made applicable by section 2 (b) of the McCarran Act to the insurance business "to the extent that such business is not regulated by State law." Thus, with two other exceptions unimportant to any issue under consideration in this brief, regulation of insurance by the Federal Trade Commission was limited by Congress to matters left unregulated under applicable state laws.

Amici curiae submit that the foregoing statement of the jurisdiction of the Federal Trade Commission over the business of insurance is supported by the legislative history of the McCarran Act as well as by the plain language of the Act itself. Our contention that the Commission's power to regulate insurance is limited to matters left unregulated by the laws of the particular State in question also finds support in the decisions of the United States Supreme Court relating to the purpose and effect of the McCarran Act. *Prudential Insurance Company v. Benjamin*, 328 U. S. 408, 66 S. Ct. 1142, 90 L. Ed. 1342 (1946); *Maryland Casualty Company v. Cushing*, 347 U. S. 409, 74 S. Ct. 608, 98 L. Ed. 806 (1954); *Wilburn Boat Company v. Fireman's Fund Insurance Company*, 348 U. S. 310, 75 S. Ct. 368, 99 L. Ed. 337 (1955).

We believe the Supreme Court's decision in *Prudential Insurance Company v. Benjamin*, *supra*, constitutes a complete and wholly sufficient answer to the position taken by a bare majority of the Federal Trade Commission in the *American Hospital*

and Life Insurance Company case (Federal Trade Commission Docket, No. 6237, April 24, 1956, printed in Appellant's Reply Brief, Appendix, pp. 24-76) that the Commission has concurrent jurisdiction under the McCarran Act to regulate insurance advertising whether or not there are state laws applicable to the regulation of that subject matter. In this connection, it is noteworthy that the majority opinion simply ignores the *Prudential Insurance Company* case. We agree without qualification with the views expressed by Commissioner Gwynne and Commissioner Mason in their joint dissenting opinion in the *American Hospital* case. As this dissenting opinion points out, concurrent jurisdiction would restore the confusion which followed the *South-Eastern Underwriters* decision and therefore subvert Congress' purpose in passing the McCarran Act.

Amici curiae insist that the Federal Trade Commission has no jurisdiction, concurrent or otherwise, under the McCarran Act to regulate the business of insurance where applicable state laws exist to regulate the matter under consideration. On the contrary, the Act makes it plain that the Commission's jurisdiction is limited to those instances where state law has left the matter unregulated. Thus in determining whether the Commission has jurisdiction over the advertising practices employed in Washington by out-of-state insurance companies doing business in the State of Washington, the only relevant question to be decided in view of the terms of

the McCarran Act is whether the laws of Washington provide for regulation of such advertising in this State.

II.

Advertising employed in the conduct of the business of insurance in Washington is regulated by the laws of the State of Washington.

During the moratorium provided for by Section 3(a) of the McCarran Act, the legislature of the State of Washington enacted chapter 79, Laws of 1947 (chapters 48.01 to 48.36 and chapter 48.48, Revised Code of Washington), which constitutes an insurance code designed to regulate in a comprehensive manner the many and varied aspects of the business of insurance conducted in our State. As provided by RCW 48.01.020, this code governs "all insurance and insurance transactions in this State, or affecting subjects located wholly or in part or to be performed within this state, and all persons having to do therewith."

The following provisions of the Washington insurance code amply demonstrate that insurance advertising in Washington is regulated by the laws of Washington.

RCW 48.30.040 provides:

"No person shall knowingly make, publish, or disseminate any false, deceptive or misleading representation or advertising in the conduct of the business of insurance, or relative to the business of insurance or relative to any person engaged therein."

RCW 48.30.050 provides:

“Every advertisement of, by, or on behalf of an insurer shall set forth the name in full of the insurer and the location of its home office or principal office, if any, in the United States (if an alien insurer).”

RCW 48.30.060 provides:

“No person who is not an insurer shall assume or use any name which deceptively infers or suggests that it is an insurer.”

RCW 48.30.070 provides:

“(1) Every advertisement by or on behalf of any insurer purporting to show its financial condition may be in a condensed form but shall in substance correspond with the insurer’s last verified statement filed with the commissioner.

“(2) No insurer or person in its behalf shall advertise assets except those actually owned and possessed by the insurer in its own exclusive right, available for the payment of losses and claims, and held for the protection of its policyholders and creditors.”

RCW 48.30.080 provides:

“No person shall make, publish, or disseminate, or aid, abet or encourage the making, publishing, or dissemination of any information or statement which is false or maliciously critical and which is designed to injure in its reputation or business any authorized insurer or any domestic corporation or reciprocal being formed pursuant to this code for the purpose of becoming an insurer.”

RCW 48.30.090 provides:

“No person shall make, issue or circulate, or cause to be made, issued or circulated any

misrepresentation of the terms of any policy or the benefits or advantages promised thereby, or the dividends or share of surplus to be received thereon, or use any name or title of any policy or class of policies misrepresenting the nature thereof.”

RCW 48.30.010 provides:

“(1) No person engaged in the business of insurance shall engage in unfair methods of competition or in unfair or deceptive acts or practices in the conduct of such business as such methods, acts, or practices are defined pursuant to subsection (2) of this section.

“(2) In addition to such unfair methods and unfair or deceptive acts or practices as are expressly defined and prohibited by this code, the commissioner may from time to time by regulations promulgated only after a hearing thereon, define other methods of competition and other acts and practices in the conduct of such business reasonably found by him to be unfair or deceptive.

“(3) No such regulation shall be made effective prior to the expiration of thirty days after the date of the order on hearing by which it is promulgated.

“(4) The commissioner shall forthwith file a copy of every such regulation in the office of the county auditor of each county of this state.

“(5) If the commissioner has cause to believe that any person is violating any such regulation he shall order such person to cease and desist therefrom. The commissioner shall deliver such order to such person direct or mail it to the person by registered mail with return receipt requested. If the person fails to comply therewith before expiration of ten days after the cease and desist order has been received by him, he shall forfeit to the people of this state a

sum not to exceed two hundred and fifty dollars for each violation committed thereafter, such penalty to be recovered by an action prosecuted by the commissioner.”

RCW 48.05.140 provides in part:

“The commissioner may refuse, suspend, or revoke an insurer’s certificate of authority, in addition to other grounds therefor in this code, if the insurer:

“(1) Fails to comply with any provision of this code other than those for violation of which refusal, suspension, or revocation is mandatory, or fails to comply with any proper order of the commissioner.”

In view of the foregoing provisions of the Revised Code of Washington, there can be no question that advertising employed in this State by Fireman’s Fund Indemnity Company, or by any other insurer authorized to do business in Washington, is subject to regulation under the laws of the State of Washington.

CONCLUSION

Inasmuch as the laws of the State of Washington provide for the regulation of insurance advertising in this State; and inasmuch as section 2(b) of the McCarran Act declares that the Federal Trade Commission Act shall be applicable to the business of insurance "to the extent that such business is not regulated by State law," *amici curiae* submit that the Federal Trade Commission has no jurisdiction, concurrent or otherwise, to regulate advertising within the State of Washington of health and accident policies issued by out-of-state insurance companies authorized to do business in this State.

Respectfully submitted,

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No. 14977.

IN THE

United States Court of Appeals

FOR THE NINTH CIRCUIT

HARRY MORRIS SHERMAN,

Appellant,

vs.

UNITED STATES OF AMERICA,

Appellee.

APPELLEE'S BRIEF.

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FILE

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No. 14977.

IN THE

United States Court of Appeals

FOR THE NINTH CIRCUIT

HARRY MORRIS SHERMAN,

Appellant,

vs.

UNITED STATES OF AMERICA,

Appellee.

APPELLEE'S BRIEF.

Jurisdiction.

The jurisdiction of the District Court in this case arose under Title 21 U. S. C. A. Section 174 as amended November 2, 1951, Ch. 666, Sec. 1, 5(1), 65 Stat. 767, and Title 18 U. S. C. A., Section 3231 (June 25, 1948, Ch. 645, 62 Stat. 826).

The jurisdiction of this Court was invoked under the provisions of Title 28 U. S. C. A., Section 1291 (June 25, 1948, Ch. 646, 62 Stat. 929) and Rules 37 and 39 of the Federal Rules of Criminal Procedure, Title 18 U. S. C. A. (as amended December 27, 1948, eff. January 1, 1949).

Statement of the Case.

Appellant Harry Morris Sherman and one Annabella Ellison were indicted by the Federal Grand Jury sitting at Los Angeles for violation of the federal law pertaining to narcotic drugs.

Count one of the indictment charged that:

“On or about July 9, 1954, in Los Angeles County, California, within the Central Division of the Southern District of California, defendants HARRY MORRIS SHERMAN and Annabella Ellison, after importation, did knowingly and unlawfully receive, conceal and facilitate the transportation of, a certain narcotic drug, namely; approximately 6 grains of heroin, which said heroin as the defendants then and there well knew, had been imported into the United States of America contrary to law, in violation of United States Code, Title 21, Section 174.”

In addition appellant Sherman was indicted for the unlawful sale of heroin, the unlawful receipt and concealment of heroin, and conspiracy to sell heroin.

Count two of the indictment charged a violation of 21 U. S. C. 174, in that:

“On or about July 10, 1954, in Los Angeles County, California, within the Central Division of the Southern District of California, defendant HARRY MORRIS SHERMAN, after importation, did knowingly and unlawfully sell a certain narcotic drug, namely: approximately 333 grains of heroin, to Ralph M. Frias, which said heroin, as the defendant then and there well knew, had been imported into the United States contrary to law.”

Count three charged that:

“On or about July 20, 1954 in Los Angeles County, California, within the Central Division of the Southern District of California, defendant HARRY MORRIS SHERMAN did, after importation, knowingly and unlawfully receive, counceal, and facilitate the transportation of, a certain narcotic drug, namely: approximately 9 grains of heroin, which said heroin,

as the defendant then and there well knew, had been imported into the United States of America contrary to law, in violation of United States Code, Title 21 Section 174.”

Count four charged a conspiracy to violate 21 U. S. C. 174.

After trial the jury returned a verdict of guilty as to Annabella Ellison on count one and as to Appellant Sherman on Counts one, two, and three. On October 11, 1954 Ellison was sentenced to 10 years imprisonment and to pay a \$100.00 fine on count one while Sherman received 10 years imprisonment and a \$100.00 fine on each of Counts one, two and three, sentences to be consecutive for a total of 30 years. On October 21, 1954 notice of the instant appeal was filed from the judgment of conviction of October 11.

The facts of the case which were evidently believed by the jury differ somewhat from the presentation made by appellant in his brief. In the following statement reference will be made to the Clerk's Transcript [Clk. Tr.], the Reporter's Transcript [R.] and to the Appellant's Brief (Br.).

Appellant Sherman along with his co-defendant Ellison had in 1947 been convicted on two counts of violation of the narcotic laws [Clk. Tr. 80]. From available information the narcotics agents also believed that Sherman's brother had been convicted on a narcotics charge in New York [R. 104]. Early in 1953 information reached the Federal Narcotics Agents through an informant, and from other sources, that appellant was buying and selling narcotics and was generally active in the narcotics traffic [R. 44, 45, 67, 93, 94, 102, 103]. Accordingly on April 1,

1953, Ralph M. Frias, a Federal Narcotics Agent, arranged through an informant to meet appellant at appellant's place of ostensible business, a barber shop at 2415 West Temple Street, Los Angeles [R. 13, 56]. Frias was introduced to appellant by the informant as his partner "Eddie" [R. 57, 116]. Frias took little part in the ensuing conversation which was between appellant and the informant relative to mutual friends in the New York narcotics traffic [R. 14, 49, 58] and the whereabouts of "action" in Los Angeles [R. 59-60].

On April 2, 1953 Frias returned to appellant's barber shop and had further conversation with appellant. At that time appellant Sherman stated that he was in the narcotic traffic but that he refused to do business in Los Angeles. He stated that he was willing to take anyone to New York for the purpose of establishing a connection. He stated that since he had been convicted once before he had to use extreme caution, and he accordingly preferred to do business outside Los Angeles. He further stated that he would not do business in small quantities, stating that the chances of being caught were greater. However, he offered to take either Frias or the informant (who was also present) to New York for the purpose of purchasing heroin in kilo lots at \$300.00 to \$400.00 an ounce [R. 15, 62, 63, 95, 96, 97, 99, 100].

Agent Frias told appellant that he was unable to accept the offer at that time without conferring with some friends from whom he might procure the money to buy in such large quantities [R. 15, 16].

Due to another assignment and a shortage of the Narcotic Bureau's appropriated funds, which precluded any large scale purchases, Agent Frias was unable to immedi-

ately follow up appellant's offer to engage in narcotic traffic [R. 18, 67, 68, 69, 83, 98, 107, 108] but between April 2, 1953 and July 9, 1954 he did keep his contact with appellant by visiting his barber shop six or seven times [R. 16, 47, 48, 64].

On July 9, 1954 Frias was informed that he was to be transferred to another post of duty so in order to facilitate any future investigation of appellant, Frias undertook to introduce Narcotics Agent Michael C. Coster to appellant [R. 68]. Pursuant to this plan on July 9, 1954 Frias and Coster went to appellant's barbershop at the Temple Street address. The shop was closed and from a sign on the door they learned that appellant had moved his shop to 6622 Sunset Avenue in Hollywood [R. 17]. The two Agents proceeded to the Sunset Avenue shop where they arrived about 4:00 p. m. [R. 17, 71]. Coster was introduced to appellant as "Mike" [R. 71] and vouched for by Frias. In the ensuing conversation appellant told Frias that he was prepared to let him have 2 ounces of virgin heroin at \$600.00 an ounce [R. 18, 19]. When Frias objected to the price appellant told him it was yellow virgin heroin of eastern origin [R. 19]. Frias told appellant that he did not have the funds with him to make the purchase and indicated his desire to obtain a sample of the heroin [R. 18, 19]. Thereafter at about 5:00 p. m. Frias and Coster left the shop [R. 19, 71].

At 8:00 p. m. the same night Frias received a telephone call from appellant Sherman in which Sherman stated that he had the merchandise and requested Frias to come to Cohen's Delicatessen at 1221 North Fairfax [R. 19, 72]. Frias in the company of Coster proceeded to the delicatessen where they found appellant and his co-de-

fendant Ellison sitting in a booth opposite each other [R. 19, 72]. Ellison was then introduced to Coster [R. 20, 72]. After the waitress had left menus, appellant reached over and picked up the sugar bowl revealing a small package wrapped in wax paper [R. 21, 74, 132, 162]. Addressing Frias appellant stated:

“Here it is, Eddie. Be sure and tell the guy who tests the stuff for you that it is powerful stuff and to take it easy” [R. 21, 132].

Agent Coster inquired as to the quality of the heroin to which appellant answered:

“It’s really good. This is European stuff, and it is pure and you can cut it two or two and a half times” [R. 74].

Sherman replaced the sugar bowl and all parties ate dinner. After dinner Sherman took the package from under the sugar bowl and placed in under the horseradish bowl which was located next to Ellison [R. 21, 75]. Sherman then stated that he had two ounces to conform with the sample [R. 75]. Ellison stated that some of the heroin they had handled in the past had been of inferior quality and could not be cut but that this was the best “stuff” they had had and that because “Eddie” was such a good friend of long standing they were going to let him have it [R. 22, 75].

About 9:30 p. m. Ellison reached under the horseradish bowl, picked up the package and handed it to Frias under the table [R. 21]. Appellant eagerly pressed Frias to commit himself on the amount of heroin he would take [R. 22] but Frias told him he would have to have the sample tested as to quality before he would buy [R. 23]. Frias and Coster then left appellant and Ellison. Later

Frias placed the small package, he had received from Ellison, in an envelope and mailed it to the Government chemist in San Francisco [R. 24, 25]. Tests by the chemist revealed that this package received from Frias contained approximately six grains of heroin [R. 8]. As Government's Exhibit 1-A the contents of the package were admitted into evidence [R. 88].

The following day was July 10, 1954. At 2:00 p. m. of that day Frias and Coster visited appellant at his barber shop [R. 26, 76]. Frias told appellant that the quality of the heroin was good but that he thought it was of Mexican rather than European origin [R. 26, 77] and that it was not worth the \$600.00 per ounce appellant was asking for it [R. 26, 77]. After some discussion as to the amount of the eventual purchase and the price, during which appellant offered to sell in amounts as great as one kilogram [R. 77, 78], the agents left promising to return later that afternoon.

At 4:00 p. m. that afternoon Frias and Coster returned to the barbershop. They parked in the driveway next to the shop and appellant came from the shop to meet them as they got out of the car [R. 27, 78]. Appellant asked if they had the "sheckles". Frias told him he had the required \$600.00. Appellant asked Frias to sit in the car with him. Frias did and Coster stood next to the car while Frias counted out the \$600.00 to the appellant [R. 27, 78]. After receiving the money Sherman left after instructing the agents to wait for him in the barber-shop [R. 28, 79]. Approximately 45 minutes later, about 4:50 p. m., appellant returned to the shop, and reaching into his pocket brought forth a package which he handed to Frias [R. 28, 79]. The agents, thereupon, departed.

Frias then returned to the Federal Building where he weighed the contents of the package and forwarded them to the chemist in San Francisco [R. 30] who determined that the package contained approximately 330 grains of heroin [R. 8]. As Government's Exhibit 2 this was admitted in evidence [R. 88].

Various other visits by Frias to appellant resulted in propositions by appellant to sell heroin in a 32 ounce lot at \$400.00 per ounce or \$450.00 per ounce in 16 ounce lots [R. 32, 33].

On July 14, 1954 Frias visited Sherman accompanied by Agent Pocarobo an acquaintance of appellant. Sherman asked Pocarobo if he wouldn't finance Frias in a 32 ounce purchase. Pocarobo in return limited his agreement to 16 ounces [R. 33, 34].

On July 20, 1954 Frias drove by himself to the barber shop where he informed appellant that he needed a sample for Pocarobo. Appellant went into his shop only to return shortly with a small paper package which he handed to Frias [R. 35]. Frias returned to the Federal Building where he examined the package and mailed it to the chemist in San Francisco [R. 36]. Tests by the chemist proved this package, which was admitted as Government's Exhibit 3 [R. 88] contained approximately nine grains of heroin [R. 8]. Frias told appellant that after Pocarobo had tested the sample he (Frias) would contact him. At 1:30 p. m. that day Frias called Sherman to tell him Pocarobo was pleased with the sample and would finance him (Frias) for the sixteen ounces [R. 38]. Sherman said he would call Frias when the shipment came in [R. 38].

On July 23, 1954, Frias was informed by Agent in Charge Davis that Sherman had called him and left a

message to call back [R. 38, 39]. Frias returned the call and appellant told him the "car" for which they had been negotiating had arrived and that he wanted Frias to meet him at Cohen's Delicatessen [R. 39].

Pursuant to this phone conversation, Frias proceeded alone to the delicatessen where he found appellant and Ellison seated in a booth. As he entered they got up, paid their check and the three walked out [R. 39]. Appellant requested that their transaction be discussed in his car which was parked on Oakwood Drive just west of Fairfax [R. 40]. Appellant asked if Frias had the money. Frias had a paper bag with \$3,000 or \$4,000 in it but he told appellant that it contained the \$7200 required for the purchase of 16 ounces of heroin [R. 40]. Appellant asked for the money and instructed Frias to wait with Ellison in the car until he returned with the heroin [R. 41]. Frias refused upon the grounds that he couldn't let him have that much money and that in order for the transaction to be consummated, he would have to go with the appellant and see the heroin [R. 41]. Appellant demurred but upon urging from Ellison he attempted to oblige [R. 41]. However, after a 15-minute absence he returned to say that his source would not meet Frias personally [R. 42]. Appellant said although the deal was off for the night perhaps they could arrange to deliver and pay for the heroin in five ounce lots [R. 42]. Frias was not willing to do this so appellant said the deal was off for the night [R. 43]. Frias said he would call Pocarobo to see if he was willing to let Frias give appellant the money [R. 43]. Frias then left appellant and Ellison and after a short discussion with other agents, the agents returned and placed Ellison and appellant under arrest [R. 43].

Statute Involved.

Appellant stands convicted on three counts of violation of 21 U. S. C. A. 174. This section as amended provides:

“Whoever fraudulently or knowingly imports or brings any narcotic drug into the United States or any territory under its control or jurisdiction, contrary to law, or receives, conceals, buys, sells, or in any manner facilitates the transportation, concealment, or sale of any such narcotic drug after being imported or brought in, knowing the same to have been imported contrary to law, or conspires to commit any of such acts in violation of the laws of the United States, shall be fined not more than \$2,000 and imprisoned not less than two or more than five years. For a second offense, the offender shall be fined not more than \$2,000 and imprisoned not less than five or more than ten years. For a third or subsequent offense, the offender shall be fined not more than \$2,000 and imprisoned not less than ten or more than twenty years. Upon conviction for a second or subsequent offense, the imposition or execution of sentence shall not be suspended and probation shall not be granted. For the purpose of this subdivision, an offender shall be considered a second or subsequent offender, as the case may be, if he previously has been convicted of any offense the penalty for which is provided in this subdivision or in section 2557 (b)(1) of Title 26, or if he previously has been convicted of any offense the penalty for which was provided in section 9, chapter 1, of the Act of De-

ember 17, 1914 (38 Stat. 789), as amended; sections 171, 173 and 174-177 of this title; section 12, chapter 553, of the Act of August 2, 1937 (50 Stat. 556), as amended; or sections 2557(b)(1) or 2596 of Title 26. After conviction, but prior to pronouncement of sentence, the court shall be advised by the United States attorney whether the conviction is the offender's first or a subsequent offense. If it is not a first offense, the United States attorney shall file an information setting forth the prior convictions. The offender shall have the opportunity in open court to affirm or deny that he is identical with the person previously convicted. If he denies the identity, sentence shall be postponed for such time as to permit a trial before a jury on the sole issue of the offender's identity with the person previously convicted. If the offender is found by the jury to be the person previously convicted, or if he acknowledges that he is such person, he shall be sentenced as prescribed in this subdivision."

Summary of Argument.

I.

APPELLANT SHERMAN WAS NOT UNLAWFULLY EN-TRAPPED.

II.

IT WAS NOT ERROR FOR THE DISTRICT COURT TO IMPOSE CONSECUTIVE SENTENCES.

- A. SENTENCES IMPOSED BY THE DISTRICT COURT MAY BE MADE TO RUN CONSECUTIVELY.
- B. APPELLANT WAS GUILTY OF THREE SEPARATE VIOLA-TIONS.

III.

NO MISCONDUCT WAS COMMITTED BY THE ASSISTANT UNITED STATES ATTORNEY.

IV.

APPELLANT WAS ADEQUATELY REPRESENTED BY COUN-SEL.

- A. THE DISTRICT COURT DID NOT ERR IN REFUSING TO GRANT A 45 DAY CONTINUANCE DEMANDED BY AP-PELLANT'S RETAINED COUNSEL AS A PRECONDITION TO HIS EMPLOYMENT.
- B. APPELLANT WAS ABLY REPRESENTED BY DONALD C. KIMBER, ESQ., WHO WAS APPOINTED BY THE COURT.

V.

THE BOGGS ACT IS NOT UNCONSTITUTIONAL AS AN EX POST FACTO LAW.

ARGUMENT.

I.

Appellant Sherman Was Not Unlawfully Entrapped.

The principal contention relied upon by appellant is that the actions of the narcotics agents, in buying heroin from him, constituted unlawful entrapment.

He first raises the point that under *Sorrells v. United States* (1932), 287 U. S. 435, the defense of entrapment is available under a plea of not guilty and need not be pleaded in bar. This proposition has not been seriously questioned for years and has always been the law of this circuit. It is in nowise clear in just which way appellant claims this principle has been violated. In any event, for the purposes of this case, it is a distinction without a difference since the defense of entrapment was here raised, considered, and rejected.

The classic statement on the nature of entrapment is that of Judge Woods in *Newman v. United States*, 299 Fed. 128, viz:

“It is well settled that decoys may be used to entrap criminals, *and to present opportunity to one intending or willing to commit crime.* But decoys are not permissible to ensnare the innocent and law abiding into the commission of crime. When the criminal design originates, not with the accused, but is conceived in the mind of the government officers, and the accused is by persuasion, deceitful representation, or inducement lured into the commission of a criminal act, the government is estopped by sound public policy from prosecution therefore.” (Emphasis added.)

See also:

Sorrells v. United States (1932), 287 U. S. 435, 445.

Various tests have been employed to test the legality of entrapments practiced by law enforcement officers. Prominently employed as a gauge are those mentioned in *United States v. Becker* (2nd Cir., 1933), 62 F. 2d 1007, 1008, viz:

“An existing course of similar criminal conduct; the accused’s already formed design to commit the crime or similar crimes; his willingness to do so, as evinced by ready compliance.”

A recent case in this circuit which realistically considers the problem is *Trice v. United States* (9th Cir., 1954), 211 F. 2d 513, in which the court stated at page 516:

“The question is: Is it illegal entrapment and the answer to that question is to be found in the testimony of the narcotic agents on *whether they had reasonable grounds to believe that Trice was predisposed to engage in the illicit traffic.*” (Emphasis added.)

The court quoted with approval the statement of the government attorney that

“. . . the government has the right where the defense of entrapment is raised to bring out through competent evidence the information, even hearsay, that they have concerning the defendant in order that they dispel any possible doubt as to whether they merely went out and tried to capture an innocent person.”

This principle was further amplified by the statement of Judge Mathes that

“As I understand it, under the issue as to entrapment, the defendant presents that issue and you may

show not only information which the Government officials had which led them to believe that he was supposed to have committed the offense, but you may show anything you have about his past record or his past doings or his propensities which would tend to meet the issue whether or not he was a man predisposed to violation of the law.”

The foregoing then accords with the generally held view that where an officer of the law has reasonable grounds to believe a crime is being committed he may lawfully proceed to ascertain whether those charged with the commission are actually so engaged without giving rise to the defense of entrapment.

Partan v. United States (9th Cir., 1919), 261 Fed. 515;

C. M. Spring Drug Co. v. United States (8th Cir., 1926), 12 F. 2d 852;

Price v. United States (1896), 165 U. S. 311;

Andrews v. United States (1895), 162 U. S. 420;

Grimm v. United States (1894), 156 U. S. 604;

Swallum v. United States (8th Cir., 1930), 39 F. 2d 390.

The record in the instant case is clear in its showing that the narcotics agents had reasonable grounds to believe that Sherman was predisposed to deal in heroin. Any doubt that the agents set out to lure an innocent man is dispelled by a consideration of the following facts bearing on the belief of the officers. In 1947, appellant Sherman had been convicted on two counts of violation of the narcotics laws [Clk. Tr. 80]. The narcotics agents were informed by their special informant, Fred Doors, that appellant was engaged in the narcotics traffic [R. 44, 45]. They had received information from other sources rela-

tive to appellant's activities [R. 44, 94]. They were cooperating with the Sheriff's Department which had appellant under surveillance relative to the narcotics trade [R. 103].

They were made aware of the fact that appellant's brother had been convicted of a narcotics violation in New York [R. 104]. And finally, prior to any actual negotiations, appellant admitted to Agent Frias that he was in the narcotic traffic [R. 15, 62, 63, 95, 96, 97, 99, 100]. Furthermore, it is important to note that Frias testified that the initial offer to deal in narcotics came not from the allegedly entrapping narcotics officers but from appellant Sherman himself [R. 18, 19].

The foregoing facts present a vastly stranger case against the possibility of illegal entrapment than was present in *United States v. Ginsburg* (7th Cir., 1938), 96 F. 2d 882, where the court said at page 885:

"Appellant further contends that the evidence established that he was entrapped by the instigation of the Government's narcotics agents and its paid informer, hence he insists that the judgment is contrary to law. The following is a substantial statement of the evidence upon which the contention is based, as set forth in appellant's assignment of error: The District Attorney introduced evidence to show that McGovern informed the narcotics agents that he would be able to purchase narcotics from appellant, and they in turn furnished him with the money with which he went to appellant's office and asked him to sell him dope which appellant did; all of which acts of the informer were under the direction and at the instigation of the narcotics agents who had agreed to see to it that the informer would be compensated by the Government. *These facts do not constitute entrapment.*" (Emphasis added.)

But appellant argues that the agents wore him down by their importunings over a fifteen-month period. He points to the date of Frias' original contact, April 1, 1953, and claims that he resisted their repeated blandishments until July 9, 1954, at which time the combination of the wishes of a good customer, friendship and easy money, became overpowering. Agent Frias explained that the lag in prosecuting the investigation of the appellant was not caused by defendant's determined resistance to all improper suggestions but rather was caused by a shortage of funds with which the Bureau of Narcotics could buy the heroin, plus another assignment of Frias' [R. 18, 67, 68, 69, 83, 98, 107, 108]. Frias further stated that during the period in question he saw appellant six or seven times rather than 30 times as appellant testified [R. 16, 47, 48, 64].

In any event, the defense of entrapment was presented to the jury [Clk. Tr. 77] and proved unavailing.

It is well settled that the defense of entrapment presents a question of fact for the jury in the presence of any supporting evidence. As stated in *United States v. Singleton* (D. C. W. D. Pa., 1953), 110 Fed. Supp. 634:

“Under the rulings made by the Supreme Court of the United States in the case of *Sorrells v. United States* (1932), 287 U. S. 435, 53 S. Ct. 210, 77 L. Ed. 413 and that of the Third Circuit Court of Appeals in the case of *United States v. Brandenburg*, 162 F. 2d 980, the question of entrapment was one for the jury.”

See also:

Yep v. United States (10th Cir., 1936), 83 F. 2d 41;

Lufty v. United States (9th Cir., 1952), 198 F. 2d 760;

United States v. Pisano (7th Cir., 1951), 193 F. 2d 355.

The verdict of the jury on the question of entrapment concludes the matter,

Rucker v. United States (C. A. D. C., 1953), 206 F. 2d 464;

since a verdict supported by sufficient evidence is binding on a reviewing court. (*United States v. Socony-Vacuum Oil Co., Inc.*, 310 U. S. 150; *Glasser v. United States*, 315 U. S. 60, 80, as follows):

“It is not for us to weigh the evidence or to determine the credibility of witnesses. *The verdict of a jury must be sustained if there is substantial evidence taking the view most favorable to the Government, to support it.*” (Emphasis added.)

See also:

Abrams v. United States, 250 U. S. 616, 619.

Since the evidence was conflicting on the subject of entrapment, the question was properly submitted to the jury and since, as is apparent from the foregoing, there is substantial evidence to support its verdict, this Honorable Court should not now disturb that verdict. As stated in *Stillman v. United States* (9th Cir.), 177 F. 2d 607 at 616:

“ . . . The jury weighed the evidence and accepted it as true beyond a reasonable doubt, and since it is supported by sufficient evidence, the verdict binds us. *Hemphill v. United States*, 120 F. 2d 115 (C. A. 9), certiorari denied, 314 U. S. 627, 62 St. Ct. 111, 86 L. Ed. 503; *Henderson v. United States*, 143 F. 2d 681 (C. A. 9).”

II.

**It Was Not Error for the District Court to Impose
Consecutive Sentences.**

**A. Sentences Imposed by the District Court May Be Made
to Run Consecutively.**

In his subheading C. under "Errors Made in District Court" appellant seems to question the power of the Court to impose consecutive sentences. As appellant concedes however this power has long been exercised under 18 U. S. C. 3568. The practice long predates that section and is an inherent power in the Court where there are convictions of separate crimes.

See:

Ellerbrake v. King (8th Cir., 1940), 116 F. 2d
168;

Kirk v. United States (9th Cir., 1950), 185 F.
2d 185.

B. Appellant Was Guilty of Three Separate Violations.

Appellant's specification E appears to attempt the argument that only one crime is involved here. This view was further expressed by appellant during the trial when Mr. Sullivan asked:

"Q. After three transactions, is that not a business?"

Appellant replied:

"A. I wouldn't call that three transactions. I would call it one transaction; operating as to just one sale." [R. 146; emphasis added.]

Of interest in this connection is the following language from *Reynolds v. United States* (6th Cir., 1922), 280 Fed. 1, wherein it was stated:

“The sole contention of plaintiff in error here (although stated in two forms) is that she has been twice punished for a single offense, invoking in support of that contention divers holdings of state courts under what is called the ‘same transaction’ rule. This broad rule, however, does not prevail in the courts of the United States, wherein it is well settled that it is competent for Congress to create separate and distinct offenses growing out of the same transaction.”

The “same transaction rule” above referred usually is invoked in cases where for instance a single act of transportation of narcotics is proved and there is an attempted prosecution for the possession incident to that transportation. No such fine line exists here. No matter how appellant conceives them in his own mind there were three distinct proscribed passages of heroin from appellant to Agent Frias viz.: July 9, 1954, July 10, 1954 and July 20, 1954. It is well settled that the test to be applied to determine whether there are two offenses or one, is whether each provision requires proof of a fact which the other does not.

Gavieres v. United States, 220 U. S. 338;

Morey v. Commonwealth, 108 Mass. 433;

Pereina v. United States (1954), 347 U. S. 1;

Mathews v. Swope (9th Cir., 1940), 111 F. 2d 697.

To mention the most obvious here the dates differ. Three distinct crimes were committed.

III.

No Misconduct Was Committed by the Assistant United States Attorney.

Appellant's specification D states (Br. 6):

"The jury was influenced by the prosecuting attorney. By remarks as follows: while cross examining the defenses witness; 'did you know that the defendant was an ex convict, who served time in Sing Sing Prison, whom you are a witness for. The attorney did not confine himself to the case and undermined the jury.'"

Appellant's conception of what was actually said at the trial is erroneous. In Mr. Sullivan's cross-examination of defendant's character witnesses the following question was asked:

"Q. Now, had you heard that Harry Sherman had pleaded guilty to a felony, possession of narcotics, in 1947?" [R. 184.]

* * * * *

The further question was asked:

"Q. Had you heard that Harry Sherman was sentenced to 15 to 30 years for armed robbery in 1928?"

An objection to this question was sustained [R. 184] but any prejudice was cured by the Court's instruction that the jury disregard the question [R. 184].

From the foregoing it cannot by any stretch of the imagination be said that Mr. Sullivan's conduct was prejudicial. The rule in this Circuit is trenchantly stated in *Iva Ikuku Toguri D'Aquino v. United States* (9th Cir., 1951), 192 F. 2d 338, 367:

"Our system of jurisprudence properly makes it a matter primarily for the discretion of the trial

court to determine whether prejudicial misconduct has occurred. An Appellate Court will not review the exercise of the trial court's discretion in such a matter unless the misconduct and prejudice is so clear, that the trial judge has been guilty of an abuse of discretion."

Quoted also in *Brown v. United States* (9th Cir., 1955), 222 F. 2d 293, 298.

IV.

Appellant Was Adequately Represented by Counsel.

A. The District Court Did Not Err in Refusing to Grant a 45-day Continuance Demanded by Appellant's Retained Counsel as a Precondition to His Employment.

The gravamen of this contention—appellant's specification F (Br. 6, 8)—is that the Court erred in refusing to grant appellant's retained counsel a 45 day continuance in which to prepare his case. It is of course axiomatic that the granting of a continuance is discretionary with the Court and will not be reviewed upon appeal in absence of abuse.

Williams v. United States (8th Cir., 1953), 203 F. 2d 85;

United States v. Vrilium Products Co. (1950), 185 F. 2d 3;

As reflected by the record the facts briefly are these.

The defendants Sherman and Ellison being without funds Judge Mathes appointed counsel to represent them free of charge. With the case set for trial on September 21, 1954, on September 17, 1954, Attorney B. A. Minsky, being retained by defendants' relatives, moved

the Court for a substitution of attorneys so he could represent, of record, both defendants Ellison and Sherman [R. B]. Mr. Minsky then requested a 45 day continuance in which to prepare the case. This was denied and the Court offered variously a one week continuance or a two week continuance. At one time the Court was willing to continue the case until October 5 but Mr. Minsky attempted to coax two more days from the Court and the offer was withdrawn. Since by Mr. Minsky's own words his substitution was conditioned on the fact that he be granted a 45 day continuance, he withdrew his motion for a substitution. A reading of the proceedings of September 17, 1954 [R. A through P] is sufficient to show that Judge Mathes in no way abused his discretion in refusing the 45 day continuance Mr. Minsky sought to impose as a precondition to employment.

B. Appellant Was Aply Represented by Donald C. Kimber, Esq., Who Was Appointed by the Court.

Appellant complains that after the withdrawal of Mr. Minsky he was deprived of effective aid of counsel when he was represented by Mr. Kimber who was appointed by the Court. The record as a whole shows that Mr. Kimber and Mr. Hoffman (Ellison's Counsel) conducted an alert, energetic and able defense. It is clear that appellant received at least such effective assistance of counsel as is guaranteed him by the Constitution.

See:

Diggs v. Welch (C. A. D. C., 1945), 148 F. 2d 667.

V.

The Boggs Act Is Not Unconstitutional as an Ex Post Facto Law.

Lastly, appellant in specification H takes the position that the Boggs Act (see Appx. A) is unconstitutional as an *ex post facto* law. It is claimed that since his prior narcotics conviction occurred in 1947, any attempt to apply to him the sentencing provisions of the Boggs Act—effective November 2, 1951—would be in violation of his constitutional rights. This question was considered at some length in *United States v. Taylor* (D. C. S. D. N. Y., 1954), 123 Fed. Supp. 920, where it was resolved against appellant's position. The precise question was also considered and adversely determined by the Sixth Circuit in *Pettway v. United States* (6th Cir., 1954), 216 F. 2d 106, in which the Court said:

“Appellant's contention that the statute hereinabove referred to as the Boggs Act is *ex post facto* litigation and unconstitutional is without merit. The statute was in effect prior to May 29, 1952, the date of the offenses charged in the indictment. The information, setting out the two prior convictions, did not charge appellant with any crime. It merely alleged facts, which if established, went solely to the question of punishment.”

Conclusion.

In view of the premises the Judgment of Conviction of appellant Sherman should be affirmed.

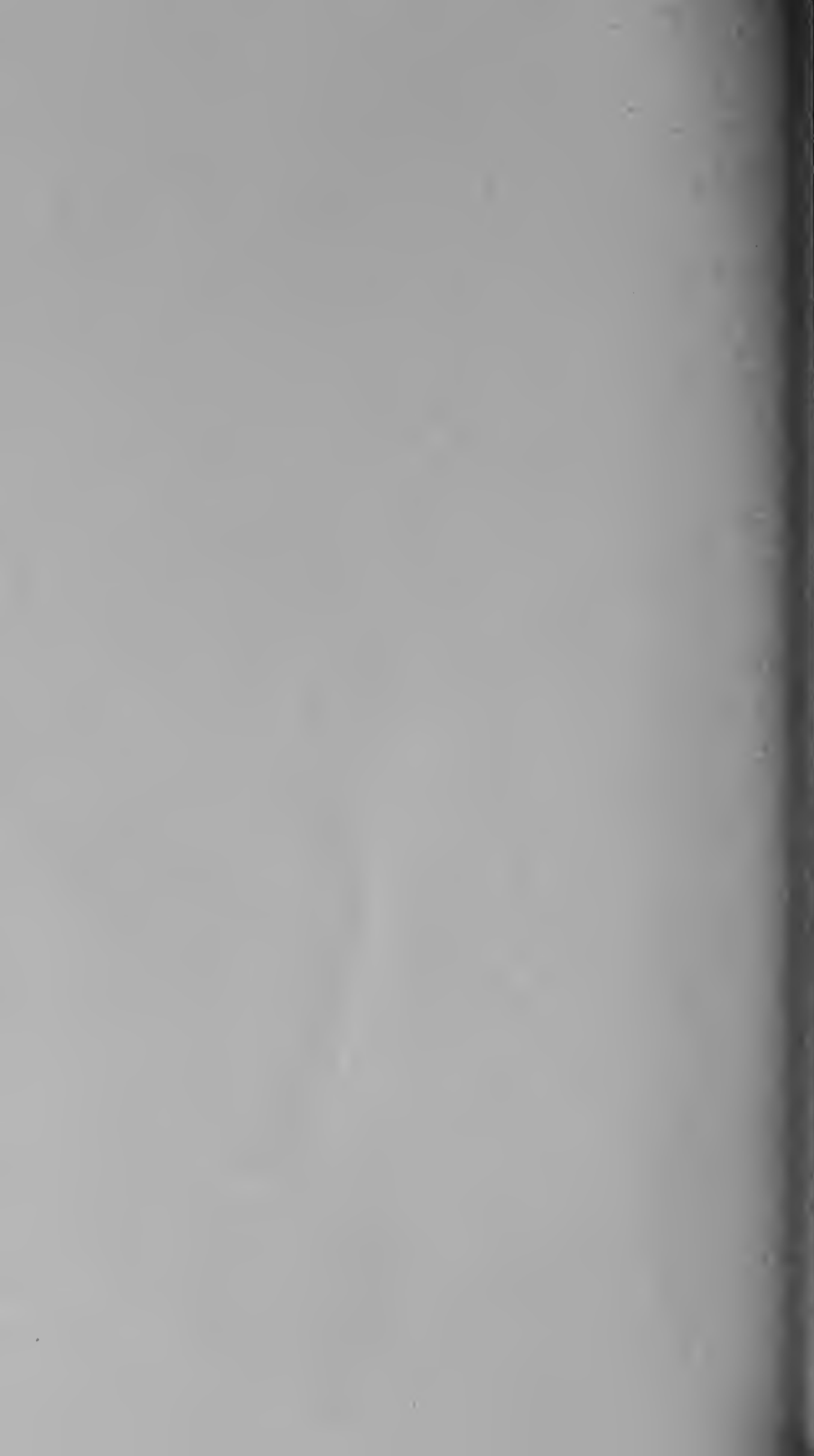
Respectfully submitted,

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APPENDIX A.

Public Law 225 82d Congress 1st session popularly known as the Boggs Act changed both 21 U. S. C. 174, the statute here in question, and its companion statute 26 U. S. C. 2557(b)(1). The Act provides:

“Public Law 255

Chapter 666

AN ACT

“To amend the penalty provisions applicable to persons convicted of violating certain narcotic laws, and for other purposes.

“Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 2(c) of the Narcotic Drugs Import and Export Act, as amended (U. S. C., title 21, sec. 174), is amended to read as follows:

“(c) Whoever fraudulently or knowingly imports or brings any narcotic drug into the United States or any territory under its control or jurisdiction, contrary to law, or receives, conceals, buys, sells, or in any manner facilitates the transportation, concealment, or sale of any such narcotic drug after being imported or brought in, knowing the same to have been imported contrary to law, or conspires to commit any of such acts in violation of the laws of the United States, shall be fined not more than \$2,000 and imprisoned not less than two or more than five years. For a second offense, the offender shall be fined not more than \$2,000 and imprisoned not less than five or more than ten years. For a third or subsequent offense, the offender shall be fined not more than \$2,000 and imprisoned not less than ten or more than twenty years. Upon conviction for a second or subsequent offense, the imposition or execution of sentence shall not be suspended and probation shall

not be granted. For the purpose of this subdivision, an offender shall be considered a second or subsequent offender, as the case may be, if he previously has been convicted of any offense the penalty for which is provided in this subdivision or in section 2557(b) (1) of the Internal Revenue Code, or if he previously has been convicted of any offense the penalty for which was provided in section 9, chapter 1, of the Act of December 17, 1914 (38 Stat. 789), as amended; section 1, chapter 202 of the Act of May 26, 1922 (42 Stat. 596), as amended; section 12, chapter 553, of the Act of August 2, 1937 (50 Stat. 556), as amended; or sections 2557(b)(1) or 2596 of the Internal Revenue Code enacted February 10, 1939 (ch. 2, 53 Stat. 274, 282), as amended. After conviction, but prior to pronouncement of sentence, the court shall be advised by the United States attorney whether the conviction is the offender's first or a subsequent offense. If it is not a first offense, the United States attorney shall file an information setting forth the prior convictions. The offender shall have the opportunity in open court to affirm or deny that he is identical with the person previously convicted. If he denies the identity, sentence shall be postponed for such time as to permit a trial before a jury on the sole issue of the offender's identity with the person previously convicted. If the offender is found by the jury to be the person previously convicted, or if he acknowledges that he is such person, he shall be sentenced as prescribed in this subdivision.

“Whenever on trial for a violation of this subdivision the defendant is shown to have or to have had possession of the narcotic drug, such possession shall be deemed sufficient evidence to authorize conviction unless the defendant explains the possession to the satisfaction of the jury.’

“Sec. 2. Section 2557(b)(1) of the Internal Revenue Code is amended to read as follows:

“(1) Whoever commits an offense or conspires to commit an offense described in this subchapter, subchapter C of this chapter or parts V or VI of subchapter A of chapter 27, for which no specific penalty is otherwise provided, shall be fined not more than \$2,000 and imprisoned not less than two or more than five years. For a second offense, the offender shall be fined not more than \$2,000 and imprisoned not less than five or more than ten years. For a third or subsequent offense, the offender shall be fined not more than \$2,000 and imprisoned not less than ten or more than twenty years. Upon conviction for a second or subsequent offense, the imposition or execution of sentence shall not be suspended and probation shall not be granted. For the purpose of this paragraph, an offender shall be considered a second or subsequent offender, as the case may be, if he previously has been convicted of any offense the penalty for which is provided in this paragraph or in section 2(c) of the Narcotic Drugs Import and Export Act, as amended (U. S. C., title 21, sec. 174), or if he previously has been convicted of any offense the penalty for which was provided in section 9, chapter 1, of the Act of December 17, 1914 (38 Stat. 789), as amended; section 1, chapter 202, of the Act of May 26, 1922 (42 Stat. 596), as amended; section 12, Chapter 553, of the Act of August 2, 1937 (50 Stat. 556), as amended; or sections 2557(b)(1) or 2596 of the Internal Revenue Code enacted February 10, 1939 (ch. 2, 53 Stat. 274, 282), as amended. After conviction, but prior to pronouncement of sentence, the court shall be advised by the United States attorney whether the conviction is the offender’s first or a subsequent offense. If it is

not a first offense, the United States attorney shall file an information setting forth the prior convictions. The offender shall have the opportunity in open court to affirm or deny that he is identical with the person previously convicted. If he denies the identity, sentence shall be postponed for such time as to permit a trial before a jury on the sole issue of the offender's identity with the person previously convicted. If the offender is found by the jury to be the person previously convicted, or if he acknowledged that he is such person, he shall be sentenced as prescribed in this paragraph.' ”

No. 14978

United States
COURT OF APPEALS
for the Ninth Circuit

THE GRAY LINE COMPANY, a corporation,
Appellant,

vs.

R. C. GRANQUIST, District Director of Internal
Revenue,
Appellee.

APPELLANT'S BRIEF

*Appeal from the United States District Court for the
District of Oregon*

FILED

APR 23 1956

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APPELLANT'S BRIEF

*Appeal from the United States District Court for the
District of Oregon*

JURISDICTIONAL STATEMENT

This is an appeal from a judgment entered on October 21, 1955 by the U. S. District Court for the District of Oregon dismissing Appellant's complaint (Tr. 51).

In January, 1953, the Commissioner of Internal Revenue assessed to and against Appellant transportation taxes, penalties and interest in the total amount of \$708.51 and, on March 31, 1953, Appellant paid the assessment to the Appellee (Finding 4, Tr. 43). The taxes were purportedly assessed under Section 3469 of the Internal Revenue Code of 1939, Title 26, United

States Code (Tr. 4, 43). (Said section will herein be referred to as Sec. 3469.)

Appellant, on April 17, 1953, filed with the Appellee, on Form 843, Appellant's claim for refund to it in the sum of \$708.51, together with interest at the rate of 6% per annum from March 31, 1953, as provided by Title 28, United States Code, Sec. 2411 (Finding 5, Tr. 43). The Commissioner of Internal Revenue of the United States rejected this claim for refund on January 12, 1954 (Tr. 5, Finding 6, Tr. 44).

On June 10, 1954, Appellant filed with the District Court of the United States for the District of Oregon its complaint wherein it prayed for judgment against Appellee in the principal sum of \$708.51, together with interest at the rate of 6% per annum from March 31, 1953, as provided by law (Tr. 2-19), and on August 5, 1954, the Appellee filed his answer to the complaint (Tr. 20, 21).

This case arises under the laws of the United States providing for Internal Revenue and jurisdiction was conferred on the District Court by Title 28, United States Code, Sec. 1340.

On October 21, 1955, the District Court (Solomon, J.) made and entered its final judgment against the Appellant (Tr. 51, 52). Jurisdiction to review judgments of the District Courts in cases such as this is conferred on this Court by Title 28, United States Code, Sec. 1291.

Timely notice of appeal and Bond on Appeal were served on the Appellee and were duly filed (Tr. 52-54).

STATEMENT OF FACTS

During July, 1950, (the month involved) Appellant was engaged in the business of furnishing transportation, sightseeing and airport transportation for hire. One of Appellant's July, 1950, activities was that of providing and operating a limousine service for airline passengers (Finding 7, Tr. 44, 65).

During July, 1950, Appellant provided such service for Northwest Airlines, Western Airlines and Pan American World Airways (Tr. 74). Only seven-passenger limousines were used (except on one occasion hereinafter mentioned) (Finding 8, Tr. 44, 81, 82, 87, 89, 90). On none of the trips (except the one mentioned) were more than Seven (7) adult passengers carried (Exs. 2, 3, 4). When not in use the limousines were kept at the Appellant's garage at 5th and Hoyt Streets, Portland, Oregon (Tr. 82).

An August 21, 1949, contract (Ex. 22) between Appellant and Northwest Airlines, Inc. recites that "the parties hereto desire to enter into an arrangement covering the transportation of Second Party's [the airline's] passengers and employees between the Airport and the City of Portland and vicinity." By the terms of the agreement the airline agreed to recommend that its passengers use the limousine service, and the Appellant agreed to coordinate its service with the arrival and departure times of airplanes and to carry the airline passengers and employees at designated rates. Also the agreement provided that whenever unscheduled flights

terminate, hold or originate at the Portland or Troutdale Airports, Appellant will make no fare collection and in lieu "shall bill Second Party [the airline] as per the applicable rates." The agreement could be terminated by either party giving the other 30 days written notice (Ex. 22, Tr. 101).

Appellant had no contracts with Western Airlines or Pan American World Airways, although it also furnished similar limousine service for their passengers and employees (Finding 7, Tr. 44, 69, 70).

The nature of the airport limousine service was "on call" service, meaning that no trips were made unless Appellant was notified by the airplane companies that there were passengers desiring transportation. Actually the limousine driver called the airline companies most of the time, as Appellant employed no dispatcher in July, 1950 (Finding 13, Tr. 46, 68). This "on call" service did not mean Appellant was obliged to meet all scheduled flights (Tr. 69).

Airline passengers, when purchasing tickets for air transportation, were asked by employees of the airlines whether they desired limousine service to the airport or whether they would use their own transportation. In case the airline passenger desired such limousine service, the airline made arrangements with the passenger with respect to where the passenger desired to be "picked up" by the limousine. This would often be at the offices of the airline company or at a hotel. The hotels were usually the Old Heathman or the Multnomah (Finding 10, Tr. 45). Passengers would also be picked up elsewhere

if they so arranged with the airline and the latter notified the Appellant's driver to do so (Tr. 88). In some instances the passengers boarded the limousines at the Appellant's garage (Tr. 75). The passengers were advised by the airline of the time the limousines would depart (Finding 10, Tr. 45), and the limousine drivers were notified the places to pick up passengers (Finding 13, Tr. 46).

The Appellant did not determine the points at which passengers would be picked up (Finding 10, Tr. 45). The airline companies established them prior to each trip at places convenient to their passengers (Finding 10, Tr. 45). Actually this was done with the passengers deciding on the place at which they would board the limousine (Tr. 83).

The limousine driver whose turn it was to make the next trip would telephone to the airline company and ascertain the names of the passengers he was to take to the Airport, the places they were to get in the limousine, and the take-off time of the plane. He would then drive to the designated places, "pick up" the passengers and proceed to the Airport (Finding 13, Tr. 46, 75, 86, 90).

By these calls the Appellant would ascertain whether or not there were passengers who desired or who might desire the limousine service (Tr. 70).

The limousines would go only to the places where there were passengers desiring transportation (Finding 13, Tr. 46, 71, 75). If on a particular trip there were no passengers to be picked up at one or more of the places normally designated by the airlines and the passengers,

then the limousines would not go to such place or places (Finding 13, Tr. 46, 71).

The limousines also operated from the Airport to the downtown area (Finding 14, Tr. 46, 47).

Upon arriving at the Airport and unloading the passengers, the limousine driver would ascertain from the airline when the next plane was due to arrive, and if the plane was due within a reasonable time and if there appeared to be passengers aboard the plane who desired or might desire transportation from the Airport, the driver would wait until the plane arrived and was unloaded. He would then transport from the Airport any passengers who desired the limousine service. If it appeared that no planes were due to arrive within a reasonable time, carrying passengers who desired or might desire limousine service from the Airport, the driver would return directly to Appellant's garage with an empty vehicle; however, Appellant tried to avoid having the limousine travel without passengers, which is called "deadheading", and drivers would wait at the Airport as much as two (2) hours for the arrival of planes carrying passengers desiring limousine service. If there were no limousine at the Airport which could meet an incoming plane and no limousine would arrive there with passengers in time to meet the incoming plane, then Appellant would send a limousine directly from the garage to the Airport to meet the incoming plane, provided there were passengers on such aircraft who desired or might desire limousine transportation (Finding 14, Tr. 46, 47).

Passengers being brought from the Airport were let out anywhere in the Portland downtown area, an area approximately 17 blocks wide (east & west) and 22 blocks long (north & south) (Ex. 13). Said area is bounded by:

Columbia Street on the South,
Union Station on the North,
Willamette River on the East,
About 16th Avenue on the West.

The passengers could get out anywhere in that area, including the Union Station, without extra charge (Tr. 72, 73, 77). The discharge places in the downtown area varied from day to day (Tr. 88, 90, 91).

On request a passenger could get out of the limousine on the East Side (of Portland) on a trip from the Airport. The limousine would leave the street it was traveling on to do this if requested to do so by the passenger, if the place designated were in the general direction of downtown Portland (Finding 11, Tr. 46, 76).

Appellant's garages were located at 6th and Irving and 5th and Hoyt Streets (near the North boundary of the downtown area). "Deadhead" trips to Airport would originate at the garage and on such trips the limousine would not go to the downtown area (Tr. 79), and when a limousine returned from the Airport without passengers, it returned to the garage without first going to the downtown area (Finding 14, Tr. 47, 79, 80, 87, 90).

A limousine was not driven to the Airport unless there were passengers to carry there or unless there were arriving passengers who desired or might desire service

(Finding 15, Tr. 47). Only twenty-five (25%) per cent of all airline passengers used limousine service (Finding 18, Tr. 48). Therefore, there were times when planes would either come in or leave Portland when no trips at all were made (Finding 15, Tr. 47, 88, 90, 91).

Appellant was not required to meet all incoming planes (Tr. 69, 78, 79). If no passengers on an incoming plane wanted the limousine service, no limousine was sent to meet the plane (Tr. 78, 79).

Approximately ten (10%) percent of all flights were postponed by the airlines due to weather conditions or other causes (Finding 18, Tr. 48).

The Airport is approximately ten (10) miles from the downtown district of Portland (Finding 16, Tr. 48). Appellant's limousine traveled each way between nine (9) and twelve (12) miles per trip (Exs. 2, 3, 4).

The Appellant did not establish or recommend any route over which its limousines were to go between Portland and the Airport (Finding 20, Tr. 48, 74, 86). No public authority specified any such route (Finding 20, Tr. 49, 69, 82). The drivers did not follow any set group of streets in traveling to or from the Airport (Tr. 75, 87). The limousines were operated over whatever route the driver desired to travel to suit his own convenience or that of the passengers (Tr. 71, 76).

There was never a time when the driver did not use his own discretion or was not "at liberty to pick the route either to or from" the airport. The drivers did not usually follow the same route. Some varied it to suit

their convenience (Tr. 75, 76, 83, 87). No one ever instructed the drivers to use any particular streets (Finding 20, Tr. 48, 86, 90). The routes followed by the drivers varied "from day to day, from trip to trip" (Tr. 87, 89, 90).

Appellant did not publish or post or print any schedules of its service. It did not advertise that it was operating this service (Finding 20, Tr. 48, 49, 68, 82).

None of the limousines bore any signs, except one, on which were painted the words "Gray Line Limousine Service" (Finding 8, Tr. 45). Passengers were not "picked up on the way from the airport. As the limousines (except the one) were not lettered, they looked like private cars; and as there were no regular routes, "there would be no point in a person stopping [what appeared to be] a private limousine" (Tr. 84). The general public was not hauled (Tr. 87, 90).

Sometimes, after calling the Airport, the situation would change; there would be a delay of an hour due to weather or mechanical trouble, or the driver would not even go out on the call (Tr. 91).

When Appellant's equipment, such as buses, was used for sightseeing as distinguished from its limousine service, the transportation tax was paid by the passengers (Tr. 66).

The airline companies did not sell or issue tickets in connection with flight passage that were good for transportation to or from airports in the Appellant's limousines (Finding 9, Tr. 45).

Appellant's one way charge for transportation to or from the airport was one (\$1.00) dollar for airline passengers and (60¢) for airline company employees. The limousine drivers collected these amounts in cash from its passengers, except that the charges for the trips of airline crews based in cities other than Portland, Oregon, were billed to the airlines monthly (Finding 19, Tr. 48, 77, 78). If a flight were cancelled after passengers had been taken to the airport, the particular airline, and not the passengers, was charged by Appellant and paid for the transportation (Tr. 78).

The drivers made a waybill for each trip or round trip (Ex. 2, 3, 4) and turned these in daily to the Appellant, together with all cash collected by them (Finding 21, Tr. 49, 77).

Appellant did not collect or attempt to collect any sum as a tax from any limousine passenger (Tr. 80, 81). Nothing was set aside by Appellant or regarded by it as a tax (Tr. 81). The drivers never had any discussion about transportation taxes with any passenger (Tr. 87, 90, 91).

The tax assessment involved in this case was paid by Appellant with Appellant's funds (Tr. 82).

Appellant's books and records did not reflect the collection of transportation tax from the airline passengers, and none of the limousine revenue for July, 1950 was shown on the Appellant's books as a tax obligation (Finding 28, Tr. 50). The full amount collected by Appellant as fare for its airport limousine service was reported by Appellant as income (Ex. 6, 7, 10).

On Appellant's bus operations there is a tax which Appellant recognizes and collects. Appellant maintains a separate account known as "Other Current Liabilities, Transportation Tax," in which Appellant enters the tax collected from the passengers on its said bus operations (Ex. 9, Tr. 92, 93, 94). Appellant records as income only that portion of the money paid by said bus passengers not accounted for and set aside as transportation tax. Thus, Appellant's records for July show a tax liability of \$4,512.05, no part of which is in connection with the airport operations, or was recorded by Appellant as income (Exs. 6, 8, 9, 10). The tax so collected was duly paid by Appellant to the then Collector of Internal Revenue for Oregon and is not in issue in this case.

When the payment was made of the assessment involved in this case, the payment was charged to an account called "Other Deferred Debits," was neither entered nor recognized as a tax liability, and was not deducted from Appellant's income. In other words this payment was not treated by Appellant as a tax or as a tax obligation (Tr. 92, 93), but was regarded by Appellant as an "Accounts Receivable" (Tr. 94).

The issues presented in this case have been the subject of discussion and dispute between Appellant and the Bureau of Internal Revenue since 1948 (Tr. 68). During the entire period Appellant has maintained and contended that limousine transportation furnished airline passengers was specifically exempted from the provisions of sec. 3469 (Ex. 1, 11, 14). Appellant was so informed by a Deputy Collector of Internal Revenue (Ex. 1, Tr. 16).

Appellant's attorneys advised it that sec. 3469 did not apply to its airline service (Ex. 1, 14, Tr. 17).

The Commissioner of Internal Revenue recognized that Appellant did not collect the tax from airline passengers during the period January, 1947 through March, 1947 (Ex. 21, Tr. 98). Except for an increase in the amount of fare on August 21, 1949, Appellant's service was identical in July, 1950, as in January through March, 1947.

Appellant has consistently followed its attorneys' advice and has not collected any tax from airline passengers for transportation by limousine (Tr. 80, 81).

STATEMENT OF THE CASE

During the month here involved, Appellant was and still is a corporation under the laws of the State of Oregon with its principal office in the City of Portland, State of Oregon (Finding 2, Tr. 43).

At all times from November 1, 1952, to the date hereof, Appellee was and now is the duly qualified and commissioned and acting Director of Internal Revenue (District Director of Internal Revenue) for the State of Oregon (Finding 3, Tr. 43).

During the said month Appellant had a contract (Ex. 22) with Northwest Airlines, Inc., to provide surface transportation services for airline passengers and employees of Northwest Airlines, Inc. Appellant provided similar transportation for air passengers and employees of Western Airlines and Pan American World

Airways, although it had no contract with the last mentioned airline companies (Finding 7, Tr. 44).

During the month seven passenger limousines were used, except on one isolated case, by Appellant in providing said services and transportation by these vehicles only has raised the issues with which we are concerned in this case (Finding 8, Tr. 44, 45).

The Commissioner of Internal Revenue assessed and Appellee collected transportation taxes, penalties and interest from Appellant on the theory that Appellant was operating its said limousines on an established line within the meaning of sec. 3469. Appellant instituted this action against the Appellee to recover the amounts collected, alleging that its limousines "were not operated on an established line" (Tr. 4).

On the 24th day of January, 1955, this action was tried to the Court without a jury, witnesses were sworn and testified on behalf of the Appellant, and the Appellant introduced documentary evidence (Exs. 1-14). No witnesses were called or testified on behalf of the Appellee. The Appellee introduced documentary evidence (Exs. 21, 22). All exhibits introduced are now in the possession of the Clerk of this Court. Throughout the trial the Appellant contended that the limousine service it provided did not amount to operating motor vehicles "on an established line" within the meaning of sec. 3469, which provides in part as follows:

" . . . Such tax shall apply to transportation by motor vehicles having a passenger seating capacity of less than 10 adult passengers, including the driver, only when such vehicle is operated on an established line."

Appellant also contended at the trial that the fares charged for transportation in its limousine service did not include any transportation taxes, that it did not collect from or "pass on" the transportation taxes to the passengers transported, and that it had not "willfully" failed to pay or collect any transportation taxes.

The trial court made findings of fact in which it included only a portion of the facts bearing on the question of whether or not in providing such limousine service, Appellant was operating its limousines "on an established line" within the meaning of sec. 3469, and in which it included as facts statements contrary to the uncontradicted evidence in this case. These findings are set forth as paragraphs numbered 7 to 20, inclusive, and 29 of the findings of fact (Tr. 44 to 50). These findings omitted uncontroverted, important, material and ultimate facts bearing upon this question. These omitted facts are set forth in subparagraphs (1) through (5) of Specification of Error I of this brief.

The trial court made findings of fact in which it included only a portion of the facts bearing upon the question of whether or not the money collected by Appellant from the limousine passengers included transportation taxes. The findings are set forth as paragraphs numbered 22, 23, 24, 25, 26 and 28 of the Findings of Fact (Tr. 49, 50). These findings omitted uncontroverted, important, material and ultimate facts bearing upon this question. These omitted facts are set forth in subparagraphs (6) through (12) of Specifications of Error I of this brief.

The trial court's findings of fact which omitted uncontroverted, important, material and ultimate facts showing that the assessment and collection of the penalty from the Appellant was not proper. These omitted facts are set forth in subparagraphs (6) and (12) of Specification of Error I of this brief.

The trial court found and concluded that Appellant was operating its limousines "on an established line" within the meaning of sec. 3469; that the Commissioner's assessment and the collection of said taxes, penalties and interest by Appellee was proper; and that the money paid to Appellant by limousine passengers in traveling to and from the airport included the transportation tax and was collected or paid to the Appellant as a tax. The trial court based its judgment on said findings and conclusions and dismissed Appellant's complaint.

Appellant contends that the trial court clearly misapprehended the facts in this case and omitted from its findings the uncontroverted, important, material and ultimate facts to which reference was above made. As in the trial court, Appellant here contends that the transportation services it provided during said period did not amount to operating its said limousines "on an established line" within the meaning of sec. 3469; that the Commissioner's assessment and the collection of said taxes, penalty and interest by the Appellee was not proper; that the money paid to Appellant by limousine passengers traveling to or from the airport did not include transportation taxes and was not collected by or

paid to Appellant as a tax; that Appellant has reasonable cause for its failure to collect any tax from such passengers; and that Appellant had not "willfully" failed "to pay, collect, or truthfully account for and pay over" any tax within the meaning of Section 1718(c) of the Internal Revenue Code of 1939. (Said section will herein be referred to as sec. 1718(c).)

Based upon the general propositions and contentions set forth above, Appellant also contended and now contends that:

- (1) Said transportation service was specifically exempted from the tax imposed by sec. 3469;
- (2) Appellant was not and is not liable for any transportation tax for the transportation of airline passengers in its limousines;
- (3) The assessment and collection of said purported taxes, penalties and interest were and are unlawful; and
- (4) Appellant's complaint should not have been dismissed.

The trial court, in deciding this case, treated Regulation 42, Section 130.58 as though it had the full force and effect of law (Tr. 32). Appellant contends that said regulation does not have such force and effect, and that insofar as it is contrary to and limits the provisions of sec. 3469, said regulation is null and void.

SPECIFICATIONS OF ERROR

I

The trial court erred in failing to include in its findings part or all of the following facts:

(1) The August 21, 1941 contract between Appellant and Northwest Air Lines, Inc. recited that the agreement covered the transportation of the airline's passengers and employees "between the Airport and the City of Portland *and vicinity*" (Emphasis supplied) (Ex. 22, Tr. 102). The said agreement contemplated that Appellant would furnish limousines in providing said transportation, and the fare to be charged by Appellant was determined without regard for transportation tax (Ex. 22, Tr. 102, 103). The agreement could be terminated by either party giving the other thirty (30) days notice (Ex. 22, Tr. 106).

(2) Airline passengers who desired limousine service would arrange with the airline ticket office where Appellant's limousine would pick them up. The passengers would be "picked up" at points convenient to them, usually at the offices of the airline company or at a hotel (PTO 10, 12, Tr. 24, 25). The hotels were mainly the Old Heathman or the Multnomah (Tr. 70, 71), but passengers would also be picked up at the Benson Hotel (Tr. 88). In some instances passengers boarded the limousines at Appellant's garage (Tr. 75) or at any other place in downtown Portland such as a depot or restaurant if such were designated by the airline at the request of the passenger (Ex. 22, Tr. 103).

(3) The airline companies, for the convenience of their passengers, prior to each trip made by Appellant's limousines from the downtown area of Portland to the airport, informed Appellant's drivers where to pick up passengers (PTO 12, Tr. 25).

These places were selected by the airline and by the passengers (Tr. 83), not by Appellant. Appellant's limousines would be driven only to the places where there were passengers who had arranged with the airline for limousine service (PTO 12, Tr. 25, Findings 13, 15, Tr. 46, 47, 75, 86, 90).

(4) Passengers being brought from the Airport were delivered at any place or places requested by them in the Portland downtown area, an area bounded by Columbia Street on the South, Union Station on the North, the Willamette River on the East, and 16th Avenue on the West (Tr. 72, 73, 77). The discharge places in the downtown area varied from day to day (Tr. 88, 90).

(5) When it was necessary for appellant to dispatch a limousine to the airport to meet an arriving plane at times when there were no passengers to be transported to the airport. Appellant's limousine would go directly from Appellant's garage to the airport without going to or making any stops in downtown Portland (Tr. 79), and when a limousine returned from the airport without passengers, it returned directly to the garage without going to the downtown area at all (Finding 14, Tr. 47, 79, 80, 87, 90).

(6) Appellant's attorneys advised Appellant that its limousine service did not constitute transportation within the meaning of Sec. 3469 (Exs. 1, 14, Tr. 16, 17). In addition, Appellant was informed by a Deputy Collector of Internal Revenue at Portland, Oregon that its limousine service was not subject to the tax (Ex. 1, Tr. 16, 17). Based upon this information, as well as upon the advice of its attorneys, Appellant neither collected nor paid any tax on account of the transportation of passengers in its limousine (Tr. 80, 81).

(7) A bus with a capacity in excess of ten adult passengers was used by Appellant on only one occasion (Ex. 2, 3, 4).

(8) Appellant's one-way charge for airline passengers was increased from 85¢ to \$1.00 by agreement with Northwest Airlines on August 21, 1949 (Ex. 22, Finding 24, Tr. 49), but Appellant's one-way charge for airline employees was not increased from 60¢, the fare charged prior to August 21, 1949 (Ex. 21, 22).

(9) Appellant did not collect or attempt to collect any sum as a tax for any limousine service from any passenger transported by it in its limousines (Tr. 80, 81). The fares collected by Appellant for the transporting of airline passengers and employees between the downtown area of Portland and the Airport by limousine did not include any transportation tax (Exs. 6, 7, 8, 9, 10, Tr. 80, 81). No part of such fares was set aside by Appellant or regarded by it as a tax (Tr. 81).

(10) The tax assessment involved in this case was paid by Appellant from its own funds (Tr. 82) and no part of the tax was "passed on" and collected by Appellant from its passengers.

(11) None of the limousine revenue was shown on Appellant's books as a tax obligation, but, to the contrary, the entire amount of the limousine revenue was included in Appellant's income (Ex. 6-10).

(12) Appellant's failure to collect the transportation tax from airline passengers for limousine transportation furnished by Appellant was due to reasonable cause and was not willful.

(13) The limousine service provided by Appellant was irregular and it was not operated with any degree of regularity between definite and fixed points. Appellant did not operate its vehicles "on an established line" within the meaning of sec. 3469.

for the reasons that each and all of said facts are clearly established by uncontradicted evidence; consequently a proper and just determination of the issues in this case cannot be made without taking into consideration all of

these facts along with other facts set forth in the findings made by the court.

II

The trial court erred in making its findings of fact (Tr. 42-50) in that they are clearly erroneous for the reason that they omit the material and uncontradicted facts set forth in Specification of Error I and in that they are contrary to the uncontradicted evidence in this case.

III

The trial court erred in finding and concluding (Conclusion of Law 1, Tr. 50) that Appellant in transporting airline passengers and employees in its limousines between the downtown area of Portland and the Portland Airport operated said vehicles "on an established line" within the meaning of sec. 3469 for the reason that the uncontradicted evidence clearly shows that Appellant was not operating its limousines "on an established line" within the meaning of said code section, and that such finding and conclusion is not supported by and is contrary to the evidence and is contrary to law, and for the further reason that such finding and conclusion is based upon only a portion of the evidence, the court having disregarded the facts set forth in Specification of Error I.

IV

The trial court erred in treating Regulation 42, Section 130.58 as though it had the force and effect of law (Tr. 32) for the reason that the interpretation embodied

in the said regulation must be confined within the limits of sec. 3469, and insofar as the regulation exceeds the limits of congressional enactment, it is void and may be disregarded.

V

The trial court erred in making its Conclusion of Law 2 (Tr. 50), which is as follows:

“The Commissioner’s assessment and the collection of said taxes, penalty and interest by defendant was proper and plaintiff has failed in its burden of proof to overcome the correctness of said assessment.”

for the reason that sec. 3469 expressly provides that the tax imposed thereby shall apply to transportation by motor vehicles such as limousines, “only when such vehicle is operated on an established line,” and Appellant’s limousines were not operated on an established line within the meaning of said code section, and for the further reason that said conclusion is not supported by and is contrary to the uncontradicted evidence and is contrary to law, and for the further reason that the trial court in making said conclusion misconstrued the meaning of the term “operated on an established line” and misconstrued the meaning of the term “willfully,” and on the further ground that said conclusion is based on only a portion of the evidence, the trial court having disregarded the facts set forth in Specification of Error I.

VI

The trial court erred in finding and concluding (Conclusion of Law 3, Tr. 50) that the fares paid to Appel-

lant by limousine passengers traveling to or from the airport included the transportation taxes, and that any part of said fares was collected by or paid to Appellant as a tax for the reason that said finding and conclusion is not supported by and is contrary to the uncontradicted evidence, and is contrary to law, and for the further reason that said conclusion is based on only a portion of the evidence, the trial court having disregarded the facts set forth in Specification of Error I.

VII

The trial court erred in making and entering its judgment dismissing Appellant's complaint for exactly the same reasons as are specified in Specifications of Error III, V, and VI.

ARGUMENT

I and II

The Findings of Fact are clearly erroneous in that they omit material, uncontroverted facts clearly showing (1) that Appellant was not operating its limousines "on an established line"; (2) that Appellant did not collect any taxes from the airline passengers on account of transportation in its limousines; and (3) that Appellant did not willfully fail to comply with any provisions of the Internal Revenue Code.

The Findings of Fact are clearly erroneous in that they are contrary to the uncontradicted evidence in this case.

1. *The Court of Appeals may review the evidence in this case.*

This court has the authority to review the evidence in this case.

In considering the scope of its authority to review findings of fact pursuant to Rule 52 (a) of the Rules of Civil Procedure, this Court in the course of its opinion in *Equitable Life Assurance Society of the United States v. Irelan*, 123 F. 2d 462, 464 (9th Cir. 1941) said:

“Rule 52 (a) of the Rules of Civil Procedure, 28 U.S.C.A. following Section 723 c, was intended to accord with the decision on the scope of the review in federal equity practice . . .”

In the case of *Katz Underwear Co. v. United States*, 127 F. 2d 965, 966 (3d Cir. 1942), the Court said:

“In a case tried without a jury, Civil Procedure Rule 52 (a), 28 U.S.C.A. following Section 723 c, governs . . . This Rule permits review to the extent formerly allowed in federal equity practice. 3 Moore’s Federal Practice, Section 52.01, p. 3118. In equity if it clearly appeared that the Court misapprehended the evidence its findings of fact may be set aside.”

2. *The trial court clearly misapprehended the evidence.*

The testimony and evidence offered by Appellant at the trial was not contradicted, nor were any of Appellant’s witnesses impeached. Yet, the trial court, in making its findings, failed to include therein material, uncontroverted facts established by the evidence, but instead included facts that are in conflict with the uncontradicted evidence. Generally, uncontradicted testimony must be followed where the witnesses who offered the testimony are not impeached, and when the testimony is not contradicted by physical or other facts actually proved, or when the testimony is not inherently im-

probable. *Grace Bros., Inc. v. Commission of Internal Revenue*, 173 F. 2d 170 (9th Cir. 1949).

That the trial court clearly misapprehended the evidence of this case is shown by conflicts between the Court's opinion and the evidence, conflicts between the Court's opinion and the Court's findings, and conflicts between the Court's findings and the evidence.

All of the facts set forth under Specification of Error I, pages 17-19 hereof, were established by clear uncontradicted evidence. Those facts are material to a proper decision of this case and each of them was either ignored by the Court completely or was only partially included in the Court's findings. In addition, findings made by the Court insofar as they are contrary to those set forth under Specification of Error I are erroneous, are not supported by the evidence, testimony or exhibits, and cannot be even properly inferred therefrom.

An analysis of the trial court's opinion in the light of the Court's own findings, as well as the uncontradicted evidence, will illuminate the picture and clear away the haze of vague inferences which apparently caused the trial court to completely misapprehend the full import of the evidence in this case.

The trial court, obviously impressed by the case of *Royce et al. v. Squire*, 73 F. Supp. 510 (D.C. W.D. Wash. 1947), affirmed on other grounds, 168 F. 2d 250 (9th Cir. 1948), in its written opinion in this case stated as follows:

"There is no need for reviewing the facts in this case. They are similar to those outlined in *Royce*,

et al. vs. Squire, Collector, 73 F. Supp. 510 (D.C. Wash. 1947)." (Tr. 32)

A review of the facts in this case by the trial court would have disclosed to the Court that the similarity to the facts outlined in the findings in the *Royce* case is that both cases involve transportation of airline passengers by limousine. The facts found by the Court in the *Royce* case disclose that the limousine company there conducted its operations in a manner substantially different from that of Appellant.

It is submitted that the trial court's opinion is more consistent with the facts and findings of the *Royce* case than with the facts, or even the findings, of the instant case. The distinctions to be found in the material facts of this case and those of the *Royce* case are legion. A comparison of the findings in the *Royce* case with the facts of this case discloses the following major distinctions, all of which bear upon one or more of the issues determined adversely to Appellant in this case.

(1) In the *Royce* case the limousine company employed a dispatcher who dispatched limousines on call from the airlines and who ordered the limousines to the different destinations. (*Royce Findings XI, XIV, 73 F. Supp. at 512*). In the instant case the Appellant employed no dispatcher, and Appellant's drivers called the airlines prior to scheduled flights to learn the names of the passengers, if any, and where to pick them up (*Finding 12, 13, Tr. 46, 68*).

(2) In the *Royce* case, the limousine company was required to meet all incoming planes and frequently

limousines would be dispatched to the airport without passengers (*Royce Finding XIV*, 73 F. Supp, at 512). In the instant case Appellant's limousines were not required to meet any planes unless there were passengers on the arriving plane who desired limousine service. If there were no passengers desiring limousine service, no limousine would be sent (*Finding 15*, Tr. 47, 69, 78, 79).

(3) In the *Royce* case, the limousine company instructed its drivers to follow the most direct route and the drivers usually used either of two streets (*Royce Finding XII*, 73 F. Supp. at 512). In the instant case, Appellant did not instruct its drivers as to any route whatsoever (*Finding 20*, Tr. 48, 74, 86, 90).

(4) In the *Royce* case, 50% of all airline passengers used the limousine service (*Royce Finding XIII*, 73 F. Supp. at 512). In the instant case, only 25% of airline passengers used the limousine service (*Finding 18*, Tr. 48). This factor alone would cause the service furnished by Appellant to be far more irregular than that furnished by the limousine company in the *Royce* case.

(5) In the *Royce* case, passengers being brought from the Airport were delivered to the Seattle Metropolitan area (*Royce Findings XI*, 73 F. Supp. at 512). In the instant case, Appellant's limousines would deliver arriving passengers to any point in downtown Portland to which the passengers desired to go, or would deliver the passengers at any place outside of the downtown area, if such place were in the general direction between the Airport and downtown Portland (*Finding 11*, Tr. 46, 72, 73, 76, 77).

(6) In the *Royce* case, the drivers employed to drive the Airport limousine informed the passengers that Federal transportation tax was included in the fares paid by them (*Royce Finding XVIII*, 73 F. Supp. at 513). In the instant case, no part of the fare was treated by Appellant as a tax (Tr. 80, 81, 93) and Appellant's drivers never informed any passengers that there was any tax on the fares (Tr. 87, 90, 91).

(7) In the *Royce* case the cash fares and tax were maintained as separate items, and the amounts billed monthly to and collected from the airlines included the tax on the transportation as a separate item. The amounts collected as taxes were posted monthly to a ledger account entitled "Federal Transportation Tax." (*Royce Finding XIX*, 73 F. Supp. at 513). In the instant case the books of Appellant do not reflect either the collection of any transportation tax from its airport limousine passengers or the billing or collection of any item as taxes from the airlines, as no tax was collected. Appellant, however, did carry on its books and records an account entitled "Other Current Liabilities, Transportation Tax," showing tax liability for other transportation furnished by Appellant, which transportation was not by limousine and was subject to tax (*Finding 28*, Tr. 50, 93, Ex. 6, 7, 8, 9, 10).

(8) In the *Royce* case, part of the money collected from the airline passengers was posted on the limousine company's books as an accrued liability account as tax collected and was never closed into profit and loss nor taken into revenue for income tax purposes (*Royce Findings XIX*, 73 F. Supp. at 513). In the instant case

the full amount of the fares paid by the airline passengers was reported as income by Appellant and was carried on the Appellant's books as revenue (Tr. 92, 93, Finding 28, Tr. 50).

(9) In the *Royce* case the limousine company filed tax returns reporting the sums of the monthly total collected as taxes on cash fares and the monthly total billed to and collected from the airline as taxes (*Royce Findings IV, XIX, 73 F. Supp, at 511, 513*). In the instant case Appellant did not collect any transportation tax from its airport limousine passengers (Tr. 80, 81), and did not report any portion of the money collected from such passengers as a tax on its transportation tax returns.

(10) In the *Royce* case, the limousine company's fares were increased to coincide in amount and time with each tax rate increase passed by Congress (*Royce Finding XVII, 73 F. Supp. at 513*). In the instant case, fares were increased on August 21, 1949. The increase was unrelated to any tax rate increase, was almost 14 months after a Deputy Commissioner of Internal Revenue advised Appellant that in his opinion Appellant's limousine service was subject to the transportation tax (Ex. 21, Findings 22, 24, Tr. 49), and clearly does not coincide in time either with a tax rate increase or with the Deputy Commissioner's letter.

Thus, many of the facts found material by the Court in the *Royce* case are not present in the instant case, and as shown by the numbered paragraphs (1) to (10), material differences exist, not only as to the basic issue

(Specification of Error III, discussed ante), but also as to whether Appellant collected any taxes from the airline passengers (Specification of Error V, discussed ante). There is no real similarity in the factual situations to justify the Court's reference to the *Royce* case as authority for any finding or decision in the instant case.

The findings prepared by Appellee's attorneys and approved by the trial court are actually in conflict in certain respects with the opinion, as illustrated, in part, by the following language in the opinion dealing with the regularity of Appellant's limousine service, the very crux of this case:

"Plaintiff's [Appellant's] service was supplemental to the air service, and was irregular only to the extent that inclement weather and other conditions postponed or cancelled air travel. The company and not the passengers determined the pick-up points in downtown Portland and the routes between such pick-up points and the airport." (Tr. 32, 33)

The Court's statement that the limousine service furnished by Appellant was irregular only to the extent that inclement weather and other conditions postponed or cancelled air travel is not a correct statement of the facts in this case. The court's findings (Finding 15, Tr. 47), the stipulated facts set forth in the Pre-Trial Order (PTO 14, Tr. 26), and the evidence (Tr. 69, 78, 79) disclose that Appellant's limousines were not driven to the airport to meet incoming planes unless there were passengers who desired or might desire transportation by limousine. As a result, there were times when airplanes would arrive in or leave the airport without Appellant's

limousines making any trip to the airport. Appellant's service was supplemental to air service only in that it was furnished solely to airline passengers and employees.

That Appellant's limousine service was irregular to a much greater extent than apparently believed by the trial court, as indicated in its opinion, is further illustrated by the facts that only 25% of all airline passengers used limousine service (Finding 18, Tr. 48); trips were not made unless passengers desired service and planes would arrive at or leave the airport without Appellant's limousine making any trips to the Airport (Finding 15, Tr. 47); and that 10% of all flights were postponed (Finding 18, Tr. 48). It is only the irregularity caused by this 10% of which the court took cognizance in its opinion. The other facts were either ignored or their importance not fully appreciated by the trial court.

The language of the second sentence above quoted from the court's opinion is also contrary to the uncontradicted testimony and, in part, it is also contrary to the court's findings in this case. Insofar as the trial court believed and stated that Appellant, "not the passengers determined the pick-up points in downtown Portland," the court erred and the statement is incorrect, is not supported by even a scintilla of evidence and is directly contrary to the stipulated facts (PTO 10, 12, Tr. 24, 25), the evidence (Tr. 83) and to the findings prepared by Appellee and approved by the court (Findings 10, 13, Tr. 45, 46).¹

¹Finding 10, Tr. 45, reads in part as follows: "... The plaintiff [Appellant] did not determine the 'pick-up' points in the downtown area. The airline companies established them at points convenient to their passengers ..."

The airline companies and the passengers, not the Appellant, determined the pick-up points in downtown Portland, and Appellant merely went to places decided upon by the passengers and the airline companies (Finding 10, Tr. 45, 83). Arriving passengers had the right to and did select any place or places to which they desired to be taken and Appellant's limousines did deliver the passengers to such place or places selected by them so long as the places selected were in the general direction between the Airport and downtown Portland (Finding 11, Tr. 46, 76), or were at any point in the downtown area of Portland (Finding 11, Tr. 46, 72, 73, 77). Insofar as Finding 11 states that passengers were delivered only to places in downtown Portland that were in the general direction between designated points, that finding is not correct, and is contrary to the facts and evidence of this case (Tr. 72, 73, 77).

The opinion is also in error insofar as the trial court stated that Appellant determined the route between the pick-up points and the Airport. The airline companies, by selecting the airport to which the limousine was to travel, and the airline companies and the passengers, by designating the pick-up and discharge points, controlled the route followed.²

Appellant's drivers followed streets of their own choice in driving to and from the airport, and their choice varied from day to day, trip to trip (Tr. 87, 89, 90). Appellant did not instruct or direct its drivers as to

²Finding 7 sets forth that the service was to be furnished by Appellant to planes arriving or departing from the Portland Airport or Troutdale Field (Tr. 44).

which routes they were to follow in traveling between the downtown area of Portland and the airport. The particular route in each instance and for each trip was selected by the driver to suit his own driving convenience³ (Finding 20, Tr. 48, 75, 76, 83, 87, 90). The mileage traveled by Appellant's limousine to or from the airport was ten (10) miles in all but a few instances, according to the trial court (Tr. 33, Finding 16, Tr. 48), but the evidence discloses that one-way trips range between 9 and 12 miles (Ex. 2, 3 and 4). Even the variance indicated by the court (ranging between 9 and 11 miles), (Tr. 33) is substantial in view of the short distance to be traveled, and clearly establishes that the route varied with each trip.

The trial court in its opinion (Tr. 34) cited the decision of this Court in the *Royce* case, 168 F. 2d 250 (9th Cir. 1948), wherein that case was affirmed on the ground that the passengers and not the limousine company had paid the taxes. This point will be discussed in detail under Specification of Error V. It will now suffice to point out that the trial court once again clearly misapprehended the facts relating to this issue, failing to observe the factual distinctions between this case and the *Royce* case. In reaching its decision that the "tax was included in the fares paid by the passengers," the trial court, in its opinion, stated as follows:

"It is also significant that *shortly* after the Deputy Commissioner ruled that plaintiff was sub-

³In the *Royce* case the limousine drivers were instructed to use the most direct route between the metropolitan area of Seattle and the Airport, and usually followed one of two streets (*Royce* Finding XI, 73 F. Supp. at 512):

ject to the transportation tax, the fares were raised from 85 cents to \$1.00. In my view the tax was included in the fares paid by the passengers." (Emphasis supplied) (Tr. 34)

The fare increase was made August 21, 1949, and applied only to fares paid by airline passengers. Fares paid by airline employees were not increased. The letter from the Deputy Commissioner referred to in the opinion was dated June 30, 1948 (Ex. 21, Tr. 98, Finding 22, Tr. 49). Almost fourteen months had elapsed between the date of the letter and the date of the agreement increasing the fares.⁴ In the *Royce* case, we saw that fare increases coincided exactly in time and amount with tax rate increases (page 28, *supra*).

It is submitted that if the increase in Appellant's fares can be connected to any one factor it is to the rise in costs which occurred in the years after the second world war. There is absolutely no connection between the increase in Appellant's limousine fares and the matter of the transportation taxes, either in point of time or otherwise. To attempt to connect the increase with the tax and the Deputy Commissioner's letter by characterizing a lapse of almost fourteen months as "shortly after" is not reasonable. The decision on this issue, as on others, indicates that the trial court did not clearly apprehend the evidence or grasp all the facts necessary to properly decide this case.

⁴The eighty-five (85c) fare charged passengers had been in effect in 1944 (Ex. 11), and was not increased prior to August 21, 1949. In October, 1950, the fare was increased from \$1.00 to \$1.25, which increase coincided with the rise in prices following the outbreak of the Korean War.

The statements expressed by the trial court in the opinion more clearly disclose the basis of its decision than do the findings prepared by the Appellee after the trial court had already decided the case. It is in the opinion that we learn the elements relied upon by the trial court in deciding this case, and these elements disclose the clear misapprehension of the facts under which the trial court labored. Even the findings of fact are contrary in part, to the statements made in the opinion.

In view of the foregoing, this is clearly a proper case for this court to review the evidence as authorized by Rule 52 (a) of the Federal Rules of Civil Procedure and the decisions of this court thereunder.

III and IV

Appellant in transporting airline passengers and employees in its limousine did not operate said vehicles "on an established line" within the meaning of sec. 3469.

Regulation 42, Section 130.58 must be confined within the limits of sec. 3469 and insofar as the Regulation exceeds the limits of Congressional enactment, it is void.

1. *The term "established line" as used in sec. 3469 means the passage of public conveyance to and fro between distant points with regularity over a route established by governmental authority.*

Congress enacted the present law taking the transportation of persons as a part of the Revenue Act of 1941. PUBLIC LAW 250, 77th Congress (Ch. 412, 1st Sess.). Between the time sec. 3469 was adopted and the period involved in this case it remained unchanged, ex-

cept that the rate of taxes was changed from time to time.

For the purpose of this case, the pertinent provision of sec. 3469 is as follows:

“. . . Such tax shall apply to transportation by motor vehicles having a passenger seating capacity of less than 10 adult passengers, including the driver, only when such vehicle is operated on an established line.”

Thus, the ultimate question is whether or not Appellant operated its limousines “on an established line” within the meaning of sec. 3469.

In ascertaining Congressional intent, some assistance is normally obtained by referring to the report of the Committee which considered and brought forth the legislation being interpreted. The following extract is taken from the report from the Committee on Ways and Means of the House of Representatives:

“Transportation of persons—A tax of 5 per cent is imposed upon the amount paid within the United States for the transportation of persons by rail, motor vehicle, water or air. Transportation by motor vehicle seating less than 10 persons is exempt . . .” (Emphasis supplied) House of Rep. Report No. 1040, 77th Cong., 1st Sess., C.B. 1941-2, 413 at 440.

It is thus to be seen that Congress intended generally to exclude from sec. 3469 transportation by motor vehicle seating less than 10 persons. The words “operated on an established line” should be strictly construed, having in mind the nature of the business to which the tax applied, in order to carry out the intent expressed in the Committee reports.

The statute should be interpreted to accomplish the stated intent of Congress. Since the statute does not define the term "operated on an established line," the words should be accorded their usual significance. In *Trenton Cotton Oil Company v. Comm.*, 147 F. 2d 33, 36 (6th Cir. 1945), the court said:

"The statute does not define the term 'stock or securities', and it is therefore necessary to resort in interpreting the provision to the common and ordinary meaning of these words."

Where a statute uses the words and terms without specifically defining their meaning, such words and terms are considered to have their ordinary and settled meaning. Where the applicable section of an act deals with a trade or business, the words must be considered to have been used in the sense in which such terms are generally used or understood in the particular business. We are, consequently, concerned with what the term "established line" means when used with regard to transportation of persons by motor vehicle.

Let us first consider the word "line" as defined by the dictionary. In Webster's Encyclopedic Dictionary (1940) that word is said to mean—

"A series of public conveyances, as buses, steamships, airplanes, & c., passing between places with regularity."

The above meaning was judicially approved in the case of *Bruce Transfer Company v. Johnston*, 227 Iowa 50, 53; 287 N.W. 278, 280 (1939), as follows:

". . . What was the meaning of the word 'line' as so used, at the times in question? Century Dictionary—

1889—Line: ‘A series of public conveyances, as coaches, steamers, packets and the like, passing to and fro between places with regularity.’ . . . ‘Stage-line’, ‘railroad line’ and ‘automobile line’ are expressions which are ordinarily understood to mean a regular line of vehicles for public use operated between distant points, or between different cities.”

From these definitions we learn that a “line” means the passage of public conveyances to and fro between distant points with *regularity*, but we are dealing with more than merely a “line”. Our immediate concern is with “an established line”. Lexicographers state that the adjective “established” means “made stable or firm; fixed or secured in some way.” Webster’s New International Dictionary of the English Language (2d Ed. Unabridged 1950), p. 874.

A state statute using the words “established route” was construed in *Public Utilities Commission v. Pulos*, 75 Utah 527, 538, 286 Pac. 947, 952 (1930), to mean a “route having legal existence.” The court relied on the general definition by lexicographers, and held a route could not be established by acts of private persons. In the course of its opinion, the court said:

“. . . It would seem reasonably clear that an established route must be a route that has a legal existence . . . It cannot well be said that a route along a public highway can be established by acts which are prohibited by law, nor by the acts of private persons or corporations.”

From this it becomes apparent that there must not only be a “line”—a passage to and fro with *regularity*, but the “line” must be “established” in order to take

transportation by motor vehicles seating less than 10 persons out of the exception enacted by Congress into sec. 3469. We have seen, too, that to be an "established line", the line must be established on a firm or permanent basis by public authority and not by act or agreement of private persons and corporations.

This is the common meaning of the term "established line" when used with reference to the transportation of persons. In 1941, when this Revenue Act was passed, lines of motor vehicles were commonly established only by public authority. When Congress used the words "operated on an established line" it had reference solely to an established line of motor vehicles, constituted as such by proper public authority. That is the only meaning that can be fairly ascribed to the language selected by Congress in view of the words used both in the Act and in the Committee Report. There is absolutely nothing to indicate that Congress used the term with any other meaning in mind.

No authority, private or public, established or attempted to establish any line over which the Appellant was to or did operate its limousines (Finding 20, Tr. 49). Appellant's limousines were not "operated on an established line" as the term is commonly understood and as it was intended by Congress to be understood.

2. *Appellant was not authorized under the laws of the State of Oregon to operate its airport limousine service on "an established line".*

Under the laws of the State of Oregon in effect in 1940 a carrier could not operate on "an established line"

unless it had a permit to do so issued by the Public Utilities Commissioner of Oregon. The applicable statutes of Oregon in force at that time were contained in Chapter 467, Oregon Laws 1947, and Chapter 488, Oregon Laws 1949. The first mentioned chapter enacted a motor transportation code, which contained provisions as follows:

“Section 9. 1. Permit to Operate. It shall be unlawful for any person to operate any motor vehicle on any highway in this state as a common carrier, either as a fixed termini or anywhere-for-hire carrier, a contract carrier or private carrier in the transportation of persons or property or both without first applying for and obtaining, in addition to the license required by law, a permit from the commissioner covering the proposed operation. . . .” (page 774)

“No vehicle shall be operated in more than one of the classes covered by the provisions of this act, provided, that vehicles carrying persons may also carry baggage and express or be operated as charter cars; provided further, . . .” (page 775)

Section 6, as enacted by the 1947 Legislature, was amended by Chapter 488, Oregon Laws of 1949 to read, in part, as follows:

“3. Common carriers shall be classified according to the types of services rendered or offered, to be determined under the following terms and conditions, which classifications will be shown on the common carrier’s permit when issued or reissued by the commissioner.

“(a) *Regular Route, Scheduled Service*:—A carrier operating in this class is any person who or which undertakes to transport persons or property, or both, or any class or classes of property, by motor vehicle for compensation *between fixed termini and over a regular route or routes upon established or fixed*

schedules. Such carriers shall file a schedule setting forth the termini between which service is rendered, the hours of departure and arrival, and tariffs and classifications governing rates.

“(b) *Irregular Route*: A carrier operating in this class is any person who or which undertakes to transport persons or property, or both, or any class or classes of property, by motor vehicle for compensation *over irregular routes*. Such carriers shall file tariffs and classifications governing rates. Persons operating charter busses are required to file a tariff that fixes a charge for use of vehicles on an hourly or mileage basis for each vehicle listed in the permit.

“Except as hereinafter otherwise provided, irregular route common carriers defined above shall serve indiscriminately the territory which they are authorized to serve, *and their service shall be on call, coincidental, non-scheduled, unperiodical, itinerant and ambulatory in nature, and such carriers shall not*: (1) By solicitation, advertisement, or by a course of dealing or practice, or otherwise, *hold themselves out to render regular service between any particular points or over any particular route or routes*, or lead shippers to believe or understand that they may rely upon a continuous regularity of service by such carriers between particular or specified points or over any particular or specified route; (2) in the solicitation of business or the advertising of their service restrict or limit such solicitation or advertising to traffic moving between any particular or specified points or over any particular or specified route or routes; (3) operate with continuing regularity under a pre-determined plan of operation or time schedule or approximate time schedule between any particular points or over any particular route; provided, however, that the provisions of this sub-paragraph (3) shall not be construed to prohibit, and shall not apply to, repeated movements by such carriers over the same route or between the

same points in instances where the character or volume of the traffic requires more or less continued and repeated movements over the same route for such reasonable periods of time as may be necessary to meet the demands of a particular shipper in particular instances." (pages 743 and 744) (Emphasis supplied)

In July, 1950, the Plaintiff had no permit to operate anywhere as a regular route scheduled service carrier, except between Government Camp and Timberline. Other than this its Oregon Public Utilities Commission Permit was to operate only as an irregular route carrier.

3. *Regulation 42, Section 130.58 must be confined Within the limits of sec. 3469, and insofar as the Regulation exceeds the limits of the Congressional enactment, it is void and may be disregarded.*

Regulation 42, Section 130.58 states:

"Sec. 130.58. *Motor Vehicles with Seating Capacity of Less Than 10.*—No tax is imposed on transportation by a motor vehicle having a seating capacity of less than 10 adult passengers, including the driver, unless such vehicle is operated on an established line. The term 'operated on an established line' means operated with some degree of regularity between definite points. It does not necessarily mean that strict regularity of schedule is maintained; that the full run is always made; that a particular route is followed; or that intermediate stops are restricted. The term implies that the person rendering the service maintains and exercises control over the direction, route, time, number of passengers carried, etc. It implies also that the primary contract between the operator and the person served is for the transportation of the person and not for the hire or use of the vehicle."

As we have seen, the word "line" connotes regularity. To operate on a line would obviously mean to operate with regularity. That is the meaning of the language Congress used. The Regulation under discussion cannot minimize or change this statutory requirement.

In the case of *Morrill v. Jones*, 106 U.S. 466, 467, 1 S. Ct. 423 (1882), the Supreme Court in considering a regulation made by the Secretary of the Treasury with respect to a statute dealing with import duties said:

"The Secretary of the Treasury cannot by his regulations alter or amend a revenue law. All he can do is to regulate the mode of proceeding to carry into effect what Congress has enacted."

In *Allis v. LaBudde*, 128 F. 2d 838, 840 (7th Cir. 1942), the Commissioner by regulation approved by the Secretary of the Treasury attempted to limit the scope of a provision of the Internal Revenue Code. The court said:

". . . Although the Commissioner with the approval of the Secretary, is authorized to prescribe all needful regulations for the enforcement of Revenue Acts, it needs no argument that he cannot by such regulations alter or amend an Act, or limit rights granted by it."

In *Smith v. Commissioner of Internal Revenue*, 142 F. 2d 818, 819 (9th Cir. 1944), this Court stated:

". . . we need not consider Article 22 (a)-1 of Treasury Regulations 101, promulgated under the Revenue Act of 1938; for that which is not income cannot be made income by Treasury Regulations."

In *Hawke v. Commissioner of Internal Revenue*, 109 F. 2d 946, 949, (9th Cir. 1940), this Court said:

“. . . Departmental regulations may not invade the field of legislation, but must be confined within the limits of congressional enactment . . .”

“If the regulations go beyond what Congress can authorize or beyond what it has authorized, they are void and may be disregarded . . .”

In accord with the foregoing decisions of this Court are *Commissioner of Internal Revenue v. Van Vorst*, 59 F. 2d 677 (9th Cir. 1932) and *New Idria Quicksilver Mining Co. v. Commissioner of Internal Revenue*, 144 F. 2d 918 (9th Cir. 1944).

The foregoing cases clearly establish that under the provisions of the Revenue Act giving the Commissioner of Internal Revenue authority to prescribe rules and regulations, the Commissioner does not have power to change or alter the law, and a regulation creating a rule out of harmony with the statute is a nullity. No regulation can change what the Act meant.

Had Congress intended to qualify the meaning of the word “line”, this could easily have been accomplished, but when it did not so do, we are compelled to act on the assumption that Congress intended it to have its ordinary meaning. If Congress had intended an interpretation of the term “on an established line” different from that ordinarily understood, Congress could have easily expressed its intention in apt language.

4. *Even by the very test set up in the Regulation, Appellant was not operating its limousines "on an established line".*

The Regulation states that the term "operated on an established line" means operated with some degree of regularity between definite points. Appellant's limousine service was an irregular one and was not authorized by the statutes of the State of Oregon quoted above to be operated between definite or particular points or over any specified or regular route.

That the limousine service was operated within the authorization of the statutes of the State of Oregon and Appellant's license is established by the uncontradicted evidence.

Approximately ten (10%) percent of the flights were postponed (Finding 18, Tr. 48). Regardless of the number of takeoffs and landings at the airport, if there were no airline passengers to deliver to the airport or none arriving at the airport who desired or might desire limousine service, no limousine trips were made (Finding 15, Tr. 47, 88, 90). Where trips were made, the times of departure of the limousines were governed by the airlines (Finding 13, Tr. 46). Only twenty-five (25%) percent of the airline passengers used limousine service (Finding 18, Tr. 48). Running under such uncertain and fluctuating conditions is not an operation with that "degree of regularity" contemplated by the Regulation, and most certainly would not be an operation with the regularity implied by the word "line" written into the statute by Congress.

There were no definite points at which passengers were either picked up or discharged (PTO 10, 12, Tr. 24, 25, Finding 10, Tr. 45, 75, 88, 90). The limousines would take arriving passengers to any place in the downtown district where they wanted to get out (Tr. 72, 73, 77) or would take the passengers to any place on the East side of Portland in the general direction between the airport and downtown Portland (Finding 11, Tr. 46). The places where passengers were "picked up" were designated by the airline companies and the passengers to suit the convenience of the latter, and not by Appellant (PTO 12, Tr. 25, Findings 10, 13, Tr. 45, 46, 75, 83, 84, 86, 90). The discharge points varied from day to day, trip to trip (Tr. 88, 90).

Under such conditions, the Appellant's airport limousine service was clearly not operated with that degree of regularity between definite points contemplated by the Regulation.

In the language of the Regulation, the term "operated on an established line" implies that the person rendering the service maintains and exercises control over the direction, route, time, number of passengers carried, etc. The facts clearly establish that Appellant did not maintain and exercise such control.

Appellant had no control whatsoever over the time and number of persons carried (Findings 10, 12, Tr. 45, 46). Whether Appellant's limousines made any trips to the airport depended upon factors beyond the control of the Appellant. The route to be followed going to or from the airport depended upon the location of the

pick-up points, the particular airport to which or from which the passengers were taken, and the discharge points designated by the passengers. These factors also controlled the direction of travel and were all without the control of the Appellant. The limousine service being limited to airline passengers and employees was subject, insofar as the factors indicative of control mentioned in the regulation are concerned, to the control of the airline companies and not Appellant. Tested by the language of the Regulation, Appellant did not maintain or exercise the control which is implied in the term "operated on an established line."

A brief summary of the facts will show that even by the definition of the Commissioner embodied in the Regulation Appellant did not operate its limousines "on an established line." Appellant did not establish any points between which it operated its limousine service (Tr. 82, 83). It did not prepare or publish any schedule under which it operated (Finding 28, Tr. 48, 49, 68, 82, 83, 91). The limousines followed no set route (Tr. 75). Each driver selected the streets over which he traveled going to or returning from the airport and would leave the street selected if requested so to do by the passengers. Even the streets selected by the driver varied from trip to trip (Finding 20, Tr. 48, 75, 76, 83, 87, 90). No public authority specified any route (Finding 20, Tr. 49, 69, 82). The points to which the limousines were driven were controlled by the airline companies and the passengers (Finding 10, Tr. 45, 83). Appellant merely furnished cars and drivers and followed the orders given by the airline companies and the passengers (Tr. 83).

The airline companies could, on 30 days notice in the case of Northwest Airlines, Inc., and without notice in the case of the other airlines, terminate Appellant's service and arrange for other transportation for the passengers and employees⁵ (Ex. 22, Tr. 106).

These facts certainly show that Appellant did not have, maintain and exercise control as required by the Regulation, or operate an established line of motor vehicles as contemplated by sec. 3469.

5. *Revenue Ruling 54-47 confirms the Appellant's limousine service is not subject to the transportation tax.*

A recent ruling of the Internal Revenue Service shows that the airline limousine service furnished by Appellant was not subject to the transportation tax imposed by sec. 3469. The ruling is as follows:

"Where limousines are operated to and from an airport and surrounding areas and passengers are picked up or delivered at any place or places designated by them, as distinguished from fixed pickup and discharge points established by the limousine company, such vehicles are not considered operated on an established line within the meaning of Section 3469 of the Internal Revenue Code. If such vehicles have a seating capacity of less than 10 adult passengers, including the driver, the tax on the transportation of persons is not applicable to amounts paid for such transportation." Rev. Rul. 54-47, I. R. B. 1954-5, 16, C. B. 1954-1, 296.

In view of the well recognized principals of law hereinbefore set forth, it is no more than to be expected than

⁵Appellant had no contract with the other airlines (Tr. 69, 70).

that the Bureau would ultimately rule as above indicated. It must be noted that within the language of the ruling where passengers "are picked up or delivered at any place or places designated by them, as distinguished from fixed pickup and discharge points established by the limousine company" (emphasis supplied), the limousine service is not considered as being operated "on an established line" within the meaning of sec. 3469. It has been noted herein that the uncontradicted facts in this case conclusively show that the airline company and their passengers determined the pickup points prior to each trip (Finding 10, Tr. 45, 75, 86, 88, 90); that the Appellant had no control whatsoever over the points at which its limousines were to pick up the passengers (Findings 10, 13, Tr. 45, 46, 75, 86, 88, 90); and that the passengers were delivered at any "place or places designated by them" within the operating area of Appellant's airport limousine service, whether in downtown Portland (Tr. 72, 73, 77, 88, 90, 91) or on the East side of the city (Finding 11, Tr. 46, 76).

Under no stretch of the imagination were the "pick-up and discharge points established by the limousine company" (Appellant); consequently, in the light of the ruling, it is readily apparent that Appellant's operation was not "on an established line" within the meaning of the statute. This case comes clearly within the facts of the rule announced by Revenue Ruling 54-47.

V

The fares paid to Appellant by limousine passengers traveling to or from the airport did not include any transportation tax.

The fares collected by Appellant from the airline companies, their passengers and employees for transportation by limousine did not include any amount as transportation tax.

The Court clearly erred in finding (Finding 25, Tr. 49) and concluding (Conclusion 3, Tr. 50, 51) that the money paid to Appellant for airport limousine transportation included transportation tax. As in other instances herein mentioned, this error resulted from the fact that the trial court clearly misapprehended the uncontradicted evidence in this case. This is illustrated by the following language from the Court's opinion:

"Lastly, in the case of Royce, et al. vs. Squire, Collector, 168 F. 2d 250, the Court of Appeals affirmed the judgment of the trial court on the ground that the plaintiff was not the real party in interest because it was the passengers and not the plaintiff who paid the tax. In order to avoid the force of that decision, the plaintiff now contends that it, rather than the passengers, paid the tax. It is significant, however, that the price charged for rides on the bus, which rides were admittedly not exempt from the transportation tax, was the same as the fare charged to the passengers using the limousine.

"It is also significant that shortly after the Deputy Commissioner ruled that plaintiff was subject to the transportation tax, the fares were raised from 85 cents to \$1.00. In my view the tax was included in the fares paid by the passengers." (Tr. 34)

The trial court was evidently greatly impressed by the decision of this Court in the *Royce* case, cited by it in the portion of the opinion quoted above, and, to some extent at least, regarded this Court's decision in the *Royce* case as controlling here. It is submitted that the decision of this Court in the *Royce* case was based upon facts not present in the instant case, and that the decision there is neither pertinent nor applicable here, let alone controlling.

The facts which Judge Healy, in writing this Court's opinion in the *Royce* case, cited in holding that the limousine company had passed the tax on to the airline passengers, are as follows:

- (1) When sec. 3469 became effective, the limousine company "increased the fare to cover the tax."
- (2) As the tax rates were increased, "like fare increases were made" by the limousine company.
- (3) In case of inquiry of the passengers, the limousine company's drivers stated "that the fare paid included the tax."
- (4) Where "passengers were carried at the expense of an airline, the latter was billed the agreed amount per passenger plus an additional amount separately billed as a tax."
- (5) "The fares and the taxes were in all instances maintained as separate items" on the limousine company's books.
- (6) The limousine company filed returns reporting "the sum of the monthly total of taxes collected" for its limousine service, as entered on its books.
- (7) The sums, entered by the limousine company on its books as taxes, were not treated as reve-

nue or "reported as income" by the limousine company "during any of the period" there involved.

Based on the foregoing facts, this Court held, in the *Royce* case, that the limousine company had passed the taxes on to the passengers and that the limousine company "neither bore the burden of the tax, refunded the amounts collected, nor obtained authority to sue from those who did bear the burden."

An examination of the facts of the instant case disclosed the following, numbered to correspond with the numbers used in discussing the facts of the *Royce* case:

- (1) and (2) The only increase in fares during the period here involved occurred on November 21, 1949, and was not related to any tax increase.⁶
- (3) Appellant's drivers did not state to passengers that the fares included any transportation tax (Tr. 87, 90, 91).
- (4) The airlines were billed only the agreed amount by Appellant and were not billed any additional amount as a tax.
- (5) All fares were maintained as a single item of revenue on Appellant's books (Exs. 6, 7, 10).
- (6) Appellant reported no part of the fares collected from airline passengers for limousine service in its transportation tax returns.
- (7) The entire amount of fares paid to Appellant by the limousine passengers was treated by Appellant as revenue (Finding 28, Tr. 50, 92, 93).

⁶Evidence at the trial disclosed an additional fare increase to \$1.25 after July, 1950, which increase was mentioned in Note 4, Page 33 of this brief.

Thus, none of the facts enumerated above from the Royce case and upon which the decision of this Court in that case were based, were present in the instant case.

During the entire period of its operation, Appellant has been consistent in its position that the airport limousine service was not subject to taxation. It was not a new contention of the Appellant as indicated by the Court's use of the word "now" in the portion of the opinion quoted above. Appellant never set up any part of limousine fares as a tax, but included the full amount of each fare in its income (Tr. 80, 81, 93). It consistently, from the outset, contended that no tax was collected from its limousine passengers, and did not raise that contention merely at the trial. The Commissioner recognized that Appellant did not collect any tax on account of its airport limousine service prior to the period here involved (Ex. 21). That Appellant did not change its operation and start collecting such tax for the period after June 30, 1948, is no more emphatically illustrated than by the fact that the full amount of the fares paid by the limousine passengers was included in Appellant's revenue (Ex. 6, 7, 10). All these facts are consistent only with the fact that Appellant regarded the service as not subject to the transportation tax and that Appellant did not collect the tax from the passengers.

The trial court was so impressed by the fact that the one time a bus was used, the same fare was charged as charged for limousine service, that the trial court set forth this fact in the opinion as a foundation for its decision on this issue. Aside from the fact that it is per

passenger less expensive to use a bus,⁷ one uncontradicted fact stands out. That fact is, that the amount Appellant was authorized to charge each passenger was limited by its arrangements with the airlines to \$1.00 (Ex. 22). These arrangements contemplated the use of limousines. Appellant had no choice, if it used a bus, but to absorb the tax out of its usual fare. Out of almost 800 trips, a bus was used but once. That single, isolated instance was one of two factors on which the trial court's decision on this issue was based.

The other factor mentioned by the court was that the fare was raised on August 21, 1949 (Tr. 34). In this connection, the court views the raise as having been prompted by the letter of June 30, 1948, (Ex. 21) written by Mr. D. S. Bliss, a Deputy Commissioner. What Mr. Bliss wrote is no more than an opinion and it was and is in no way binding upon the Appellant. The Appellant at no time acquiesced in the opinion. Since 1948 there has been a constant argument with the Bureau about whether Appellant's operation was subject to the tax under sec. 3469 (Tr. 68).

Mr. Bliss wrote about the facts as they were on or before January 5, 1948. The fact that the fare was then 85¢ for passengers and 60¢ for airline employees, and that a year and a half afterwards the fare specified in the contract of August 21, 1949 (Ex. 22) was \$1.00 for passengers and 60¢ for airline employees, has nothing whatsoever to do with this case. Costs went up and so

⁷Sixteen passengers were brought from the airport early in the morning the one time a bus was used (Ex. 2). It would have required at least two limousines to carry that number of passengers.

did the fare. That is the only reason for the increase. If the court was correct that the fares were increased to cover the tax, then the fares charged to the airline employees would have also been increased at the same time. Yet, such fares were not raised. The court's belief that there was a relationship between the fare increase and Mr. Bliss' letter is not warranted from the facts.

The evidence shows, from the meager facts recited by Mr. Bliss, that he was mistaken with respect to the nature of Appellant's operation. One thing the letter does acknowledge and that is that Appellant was not collecting the tax, and that never changed (Tr. 80, 81).

The tax assessment involved in this case was paid by Appellant from its own funds and Appellant is the proper party to sue for a refund (Tr. 82).

VI

The Commissioner's assessment and the collection of the taxes, penalty and interest by Appellee was not proper.

1. *The Commissioner's assessment and the collection of the taxes by the Appellee was not proper.*

In the first instance since Appellant did not operate its limousine "on an established line" the fares paid by the limousine passengers were not subject to transportation tax. Even aside from that fact, however, the assessment by the Commissioner and the collection by Appellee of the taxes involved in this case was not proper.

The contradicted evidence clearly established that Appellant did not collect any taxes from its airline

passengers for transportation to and from the airport by limousine (Tr. 80, 81). The full amount of the fares paid by the passengers was entered in Appellant's books as revenue (Exs. 6, 7, 10, Tr. 80, 81, 93), no part of the fares was entered on Appellant's books as a tax obligation or a liability and no part of the fares was deducted from Appellant's income as a tax liability (Finding 28, Tr. 50, Exs. 6, 7, 10).

In view of the foregoing, there are absolutely no facts, testimony, or evidence upon which a finding or conclusion can be based that Appellant collected any taxes from the airline passengers for its limousine service.

Sec. 3469 imposes a tax upon the person purchasing the transportation and not upon the company furnishing the same.⁸ In view of the fact that Appellant collected no tax from the limousine passengers, the assessment by the Commissioner and the collection by the Appellee was not proper.

2. *The Commissioner's assessment and the collection of the penalty was not proper.*

The trial court's conclusion that the penalty was properly assessed stands merely as a naked holding neither supported by the evidence nor grounded upon any finding that appellant "willfully," capriciously, or

⁸If the failure is willful, the party failing to collect the tax may be subject to a penalty of 100% of the amount of the tax. This, however, would be imposed by Sec. 1718(c) and not by Sec. 3469. This was recognized by the Deputy Commissioner in his letter of June 30, 1948 to The Gray Line Company (Ex. 21, Tr. 98).

without reasonable cause failed "to pay, collect or truthfully account for and pay over" any taxes. A close scrutiny of the findings (Tr. 42-50) fails to disclose even an inference from which one can deduce that Appellant willfully failed to comply with sec. 3469, or with any other provision of the Internal Revenue Code. The only finding made by the trial court with respect to the penalty is that Appellant paid the penalty from its own funds (Finding 27, Tr. 49, 50).

It is no wonder that the findings of the trial court are silent on this point. Not a scintilla of evidence can be found either in the testimony or in the exhibits that even tends to establish that Appellant willfully failed to comply with sec. 3469. The findings are silent because the record contains nothing to which either Appellee or the trial court could point as a basis for a factual finding that Appellant "willfully," capriciously, or without reasonable cause failed to comply with sec. 3469.

In its opinion (Tr. 33) the trial court stated that the penalty was properly assessed, basing its determination on the warning conveyed to Appellant by the Deputy Commissioner on June 30, 1948 (Ex. 21). In Exhibit 21 the Deputy Commissioner expressed his opinion that sec. 3469 applied to Appellant's limousine service and concluded that a failure by Appellant to collect the tax on such transportation in the future as it had in the past would be regarded as willful.

Supported by the advice of its attorneys, Appellant believed that its airport limousine service was not subject to the tax imposed by sec. 3469, and believed in

good faith and still believes that the Deputy Commissioner was wrong. Appellant therefore continued operating exactly as it had in the past without collecting any tax from the airline passengers (Tr. 80, 81). Appellant's failure to follow the interpretation placed upon sec. 3469 by the Deputy Commissioner, rather than that of its attorneys, does not constitute a willful failure to comply with the Revenue Code and is not sufficient to subject Appellant to the penalty provision. Such action is neither capricious nor unreasonable. The facts disclose that Appellant has consistently, since this matter was first raised, contended that sec. 3469 did not apply to its airport limousine service (Exs. 11, 14, Tr. 68).

At the outset Appellant submitted this matter to Mr. Stewart Lamb, Special Deputy Tax Collector in the Office of the Collector in Portland, Oregon, who ruled that Appellant was not liable for the taxes on the transportation of the airline passengers. Appellant has consistently and continuously relied upon this ruling (Ex. 1, Tr. 16, 17).

In addition, Appellant submitted this matter to its tax attorneys for their opinion as to the applicability of sec. 3469 to its airport limousine service. Appellant's attorneys advised Appellant that its limousine service was not subject to such tax, but was specifically exempted therefrom. During the entire period Appellant consistently took the position in reliance upon the advice of its attorneys and the information furnished by the Special Deputy Tax Collector that its airport lim-

ousine service was not subject to the tax imposed by sec. 3469 (Ex. 1, Tr. 16, 17, Ex. 14).

Negotiations with regard to the asserted tax liability have been continuously conducted by Appellant and Appellant's attorneys and representatives of the Commissioner over a lengthy period of time. Any penalty for a willful failure to pay taxes under these circumstances is entirely unwarranted. The word "willfully" as used in sec. 1718(c) requires more than an intentional and deliberate non-compliance with the Internal Revenue Code in order to bring the penalty provision into play. The word "willfully" as used in sec. 1718(c) means "without reasonable cause," or "capricious." See *Kellems et al v. United States et al.*, 97 F. Supp. 681 (D. C. Conn. 1951). In *New Oakmont Corporation v. United States*, 86 F. Supp. 897, 899 (Ct. Cl. 1949), the court stated:

"A taxpayer should not be subjected to a penalty unless he comes fairly clearly within the situation which is defined in the law as deserving to be penalized."

Clearly, the only way to characterize Appellant's conduct in this case is as conduct reasonably to be expected of any taxpayer having an honest dispute with the Commissioner as to the correct interpretation of a section of the Internal Revenue Code. In no other way except that selected by Appellant could the Deputy Commissioner's interpretation have been tested in court. If, by such action, Appellant "comes fairly clearly within the situation which is defined in the law as deserving to be penalized," how then could any taxpayer ever

safely test the Commissioner's interpretation of the code? If such were the law, no taxpayer, irrespective of how reasonable his position may be, or how openly, honestly and in good faith he asserts it, could seek a court decision on the Commissioner's interpretation, without incurring a penalty. The law does not place such a burden upon the taxpayer. The Commissioner's fallibility has been too often demonstrated by numerous court decisions to justify the imposition upon Appellant of a 100% penalty for contesting the Commissioner's interpretation, where, as here, such contest has been made openly, in good faith, with reasonable cause and on the advice of attorneys.

Whatever the final decision in this case may be, it is clear that Appellant had reasonable cause for its belief that it was not subject to the taxes for which assessment and collection was made. Appellant's honest and consistent contention that sec. 3469 did not and does not apply to its airport limousine service supported as it was by advice of its attorneys in the highly complicated and specialized field of taxation, was and is reasonable and not capricious. Under no circumstances should Appellant be subject to a penalty for openly contesting, in good faith, the Commissioner's interpretation of sec. 3469.

VII

Conclusions of Law 1, 2 and 3, not being supported by the evidence and being contrary to the evidence and the law are clearly erroneous.

The discussions heretofore presented the lengthy questions of law and fact raised by Conclusions of Law 1, 2 and 3. Each of these conclusions is clearly erroneous and the judgment based thereon, being based on erroneous conclusions, is therefore also erroneous.

CONCLUSION

From the foregoing analysis of the law and evidence, it is apparent that all of the conclusions of law made by the trial court and the trial court's decision and judgment in favor of the Appellee and dismissing Appellant's complaint with prejudice are clearly erroneous and that the judgment of the trial court should be reversed.

Respectfully submitted,

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NO. 14,978

In the United States
Court of Appeals
for the Ninth Circuit

THE GRAY LINE COMPANY, a corporation,

Appellant

v.

R. C. GRANQUIST, District Director of Internal Revenue,

Appellee

On Appeal from the Judgment of the United States District
Court for the District of Oregon

BRIEF FOR THE APPELLEE

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FILED

MAY 20 1956



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NO. 14,978

**In the United States
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THE GRAY LINE COMPANY, a corporation,

v.

Appellant

R. C. GRANQUIST, District Director of Internal Revenue,
Appellee

On Appeal from the Judgment of the United States District
Court for the District of Oregon

BRIEF FOR THE APPELLEE

OPINION BELOW

The District Court's opinion (R. 32-34), findings of fact and conclusions of law (R.42-51) are not officially reported.

JURISDICTION

This appeal involves federal transportation taxes for the month of July, 1950. The taxes in dispute, in the amount of \$330.65, plus a 100 per cent penalty of \$330.65 and interest of \$47.21, or a total of \$708.51, were paid on March 31, 1953. (R. 43.) Claim for refund was filed on April 17, 1953, and was rejected on January 12, 1954. (R. 6-19, 24.) Within the time provided in Section 3772 of the Internal Rev-

enue Code of 1939, and on June 10, 1954, the appellant brought an action in the District Court for the recovery of taxes paid. (R. 3-19.) Jurisdiction was conferred on the District Court by 28 U.S.C., Section 1340. The judgment was entered on October 21, 1955. (R. 51-52.) Within sixty days and on November 7, 1955, a notice of appeal was filed. (R. 52.) Jurisdiction is conferred on this Court by 28 U.S.C., Section 1291.

QUESTIONS PRESENTED

1. Whether the District Court correctly held that appellant's motor vehicles were "operated on an established line" within the meaning of Section 3469(a) of the 1939 Code, and that the fares collected by appellant were subject to the federal transportation tax.

2. Whether the District Court correctly held that appellant failed to establish, under Section 3471(a) of the 1939 Code, that it bore the burden of the federal transportation taxes.

3. Whether the District Court correctly held that appellant was liable for the penalty under Section 1718 of the 1939 Code for failing to pay the tax to the Government after having been advised in writing by the Internal Revenue Service that it should pay the tax.

STATUTE AND REGULATIONS INVOLVED

Internal Revenue Code of 1939:

SEC. 1718. PENALTIES.

* * *

(c) Any person who willfully fails to pay, collect, or truthfully account for and pay over, any tax imposed by this chapter, or willfully attempts in any manner to evade or defeat any such tax or the payment thereof, shall, in addition to other penalties provided by law, be liable to a penalty of the amount of the tax evaded, or not paid, collected, or accounted for and paid over, to be assessed and collected in the same manner as taxes are assessed and collected. No penalty shall be assessed under this subsection for any offense for which a penalty may be assessed under authority of section 3612.

* * *

(26 U.S.C. 1952 ed., Sec. 1718.)

CHAPTER 30 — TRANSPORTATION AND COMMUNICATION

* * *

SUBCHAPTER C — TRANSPORTATION OF PERSONS

SEC. 3469 [As added by Sec. 554(b), Revenue Act of 1941, c. 412, 55 Stat. 687]. TAX ON TRANSPORTATION OF PERSONS, ETC.

(a) *Transportation.*—There shall be imposed upon the amount paid within the United States, on or after October 10, 1941, for the transportation, on or after such effective date, of persons by rail, motor vehicle, water, or air, within or without the United States, a tax

equal to 15 per centum¹ of the amount so paid. Such tax shall apply to transportation by motor vehicles having a passenger seating capacity of less than ten adult passengers, including the driver, only when such vehicle is operated on an established line.

* * *

(26 U.S.C. 1952 ed., Sec. 3469.)

SEC. 3471 [As amended by Sec. 554(d) (2) of the Revenue Act of 1941, *supra*, and Sec. 620(b) of the Revenue Act of 1942, c. 619, 56 Stat. 798]. REFUNDS AND CREDITS.

(a) Credit or refund of any overpayment of tax imposed by subchapter B, subchapter C, or subchapter E may be allowed to the person who collected the tax and paid it to the United States if such person establishes, to the satisfaction of the Commissioner under such regulations as the Commissioner with the approval of the Secretary may prescribe, that he has repaid the amount of such tax to the person from whom he collected it, or obtained the consent of such person to the allowance of such credit or refund.

(b) Any person entitled to refund of tax under this chapter paid, or collected and paid, to the United States by him may take credit therefor against taxes due upon any monthly return.

¹ The rate was increased to 15 per cent by Section 1650 of the Internal Revenue Code of 1939 which was added by Section 210 of the Revenue Act of 1940, c. 419, 54 Stat. 516, and amended by Section 302, Revenue Act of 1943, c. 63, 58 Stat. 21.

(c) Any person making a refund of any payment on which tax under subchapter B, subchapter C, or subchapter E has been collected, may repay therewith the amount of tax collected on such payment, and the amount of tax so repaid may be credited against the tax under any subsequent return.

(26 U.S.C. 1952 ed., Sec. 3471.)

SEC. 3473. APPLICABILITY OF ADMINISTRATIVE PROVISIONS.

All provisions of law (including penalties) applicable in respect of the taxes imposed by section 1700, shall, in so far as applicable and not inconsistent with this chapter, be applicable in respect of the taxes imposed by this chapter.

(26 U.S.C. 1952 ed., Sec. 3473.)

Treasury Regulations 42 (1942 ed.):

Sec. 130.58. *Motor Vehicles with Seating Capacity of Less Than 10.*—No tax is imposed on transportation by a motor vehicle having a seating capacity of less than 10 adult passengers, including the driver, unless such vehicle is operated on an established line. The term "operated on an established line" means operated with some degree of regularity between definite points. It does not necessarily mean that strict regularity of schedule is maintained; that the full run is always made; that a particular route is followed; or that intermediate stops are restricted. The term implies that the person rendering the service maintains and exercises control over the direction, route, time, number of passengers carried, etc. It implies also that the primary contract between

the operator and the person served is for the transportation of the person and not for the hire or use of the vehicle.

STATEMENT

The relevant facts, as found by the District Court (R. 42-50), may be summarized as follows:

Appellant is a corporation organized under the laws of the State of Oregon with its principal office located in Portland. During July, 1950, it was engaged in the business of transporting passengers by motor vehicle. One of its activities was that of providing and operating a limousine service for airline passengers and employees. (R.43-44.)

In August, 1949, appellant and Northwest Airlines entered into an agreement whereby appellant agreed to provide transportation by limousine for Northwest's passengers to and from Portland Airport and the City of Portland, and whenever circumstances were such that Northwest's regularly scheduled flights would originate or terminate at Troutdale Field, to provide limousine service between Troutdale Field and the City of Portland. Appellant provided similar transportation service for passengers and employees of Western Airlines and Pan American World Airways. (R. 44.)

During July, 1950, this service was provided by a fleet of six seven-passenger limousines. On none of the trips when limousines were used were more than seven adult passengers

carried. One trip during July, 1950, was made by a bus owned by appellant having a seating capacity of more than ten passengers. (R.44-45.)

The airline companies did not sell or issue tickets good for flights on their airplanes which were also good for transportation to and from the airports in appellant's limousines. The airline companies published schedules which showed fares at various cities, including Portland, but not times for limousine service. (R. 45.)

Limousine service for airline patrons was provided in the following manner:

When airline passengers purchased tickets for a scheduled flight, they were asked by employees of the airlines whether they desired limousine service or whether they would use their own transportation. Where passengers desired limousine service, arrangements were made as to where they would be picked up. This was at the offices of the airlines or at a hotel, usually the Old Heathman, Multnomah or Benson. Passengers were also advised of the time when and where in the downtown area the limousine would depart. Appellant did not determine the pick-up points in the downtown area. The airline companies established them at points convenient to their passengers. Appellant did not pick up passengers other than at designated points or along the route followed between the designated points or between the downtown area of Portland and the airport. (R. 45.)

Passengers being brought from the airport were delivered at any place or places other than those designated in the Portland downtown area, provided such place or places were in the general direction between the designated points, or at any place on the East side of Portland, between the airport and downtown Portland. In the latter instance the limousine would leave the street on which it was traveling to deliver the passenger at the place designated by the passenger, if such place were in the general direction of downtown Portland. (R. 46.)

During July, 1950, appellant did not employ a dispatcher. During that month it employed four regular drivers and an extra driver. The drivers worked in shifts and took turns in transporting passengers to and from the airport. Sometimes there would be two and occasionally three drivers on duty at the same time. The limousine driver whose turn it was to make the next trip would telephone to the airline company to ascertain the names of the passengers he was to take to the airport, the places where they were to get the limousine, and the take-off time of the airplane. He would then drive to the designated places, pick up the passengers and proceed to the airport. (R. 46.)

After he unloaded the passengers at the airport, the limousine driver would ascertain from the airline when the next plane was due to arrive, and if the airplane was due within a reasonable time and if there appeared to be passengers aboard the plane who desired or might desire trans-

portation from the airport, the driver would wait until the airplane arrived and was unloaded. He would then transport from the airport any passengers who desired limousine service. If, upon talking with the airlines, it appeared that no airplanes were to arrive within a reasonable time carrying passengers who desired or might desire limousine service from the airport, the driver would return directly to appellant's garage without first going to the downtown area with an empty vehicle. However, appellant tried to avoid deadheading, and drivers would wait at the airport as much as two hours for the arrival of airplanes carrying passengers who might desire limousine service. If there was no limousine at the airport which could meet an incoming airplane and no limousine would arrive there with passengers in time to meet the incoming airplane, appellant would send a limousine to the airport to meet the incoming airplane, provided there were passengers on such aircraft who desired or might desire limousine service. (R. 46-47.)

A limousine was not driven to the airport unless there were passengers to carry there or unless there were arriving passengers who desired or might desire service. As a result, there were times when airplanes would arrive or leave the airport without the limousines making any trips to the airport. (R. 47.)

The airport is approximately ten miles from the downtown district of Portland, which was the distance travelled

one way by appellant's limousines in all but a few instances. (R. 48.)

Appellant's limousines are operated under permit from the Public Utilities Commissioner of Oregon, as provided in the Motor Transportation Code of the State of Oregon (Chapter 488, Oregon Laws, 1949, and Chapter 467, Oregon Laws, 1947). (R. 48.)

Appellant did not instruct or direct its drivers as to the route over which its limousines were to travel between the downtown area of Portland and the airport. The particular route selected by a driver was always in the general direction of the downtown area of Portland or the airport. Weather and traffic conditions prevailing on a particular trip were factors considered by a driver in selecting particular streets. Appellant did not publish, post or print any schedules of its service. No public authority specified the route to be followed by appellant between the downtown area of Portland and the airport. (R. 48-49.)

Approximately 25 per cent of the airline passengers used limousine service and approximately 10 per cent of all flights were postponed by the airlines due to weather conditions or other causes. (R. 48.)

Appellant's one-way charge for transportation to and from the airport was increased from eighty-five cents to one dollar for airline passengers by agreement with Northwest Airlines, dated August 21, 1949. The price charged by ap-

pellant in July, 1950, was one dollar for passengers and sixty cents for airline company employees. The price charged by appellant during July, 1950, was the same whether service was provided by bus (admittedly not exempt from the transportation tax), or by limousine. The limousine drivers collected these amounts in cash from the passengers, except that the charges for the trips of airline crews based in cities other than Portland were billed to the airlines monthly. The drivers made a waybill for each trip or round trip and turned these in daily to appellant, together with all cash collected by them. (R. 48, 49.)

After reviewing appellant's limousine service, the Deputy Commissioner of Internal Revenue, by letter dated June 30, 1948, advised appellant that it was subject to the transportation tax. (R. 49.)

The District Court found that the fares collected by appellant for the transportation of airline passengers and employees between the downtown areas of Portland and the airport included the transportation tax, that the transportation tax paid by appellants to the Government was from amounts collected from its airline passengers and employees transported during July, 1950, that the burden of the tax was not borne by appellant, and that appellant's books and records did not reflect the collection of transportation tax from its passengers or as a tax obligation, although appellant did carry on its books and records an account showing tax liability for other transportation furnished by appellant, which

transportation was not by limousine and was subject to tax. The District Court found that amounts assessed against appellant as penalty under Section 1718(c) of the 1939 Code were paid by appellant and were not collected from its passengers. (R. 49-50.)

The District Court found that the limousine service provided by appellant was not irregular, but was operated with a degree of regularity between definite and fixed points, and was irregular only to the extent that inclement weather and other conditions postponed or cancelled air travel. (R. 50.)

The District Court concluded that during July, 1950, appellant operated its limousines on an established line within the meaning of Section 3469 of the 1939 Code, that the Commissioner's assessment and collection of the taxes, penalty and interest was proper, and the fares charged by appellant included the tax, so that appellant had not established that it bore the burden of the tax, as required by Section 3471 of the 1939 Code. (R. 50-51.)

SUMMARY OF ARGUMENT

1. As used in the statutes taxing the transportation of persons by motor vehicles, an "established line" has consistently been construed by the applicable Treasury Regulations to mean a regularity of operations of motor vehicles between definite points. During the periods that this statutory term has appeared in the revenue laws, Congress has on several

occasions reenacted or amended the transportation tax laws without disturbing this definition, and has thereby expressed its approval of the Regulations and given them the force of law.

The question of whether appellant's limousines were in fact operated on an established line was fully litigated below and determined adversely to appellant. Furthermore, the decision of the District Court below is fully in accord with the decision of the District Court in *Royce v. Squire*, 73 F. Supp. 510 (W.D. Wash.), affirmed on other grounds, 168 F.2d 250 (C.A. 9th), which involved similar facts.

The District Court found that there was no merit to the appellant's contention that the service which it furnished was either irregular or not at fixed points. That its service was supplemental to the air service, and was irregular only to the extent that inclement weather and other conditions postponed or cancelled air travel. The company, and not the passengers, determined the pick-up points and the routes between such pick-up points and the airport. This is fully supported by the evidence. For example, of almost 800 trips made during the month (July, 1950), all but four were clocked at within one mile of the ten-mile run that the drivers testified was the distance between the airport and downtown Portland with no intermediate stops.

2. In order to qualify for a refund of transportation taxes under Section 3471(a) of the 1939 Code, a claimant

must establish that it bore the burden of the tax. The undisputed facts of this case show, and the District Court found, that during July, 1950, appellant charged the same price to its passengers for transportation by bus (admittedly not exempt from the transportation tax) that it charged its limousine passengers. Appellant introduced no evidence as to why, in such circumstances, it bore the burden of the tax, and the District Court was justified in finding that the tax was "passed on," though it was only necessary for the court to conclude that appellant had not shown that it bore the burden of the tax.

3. Section 1718(c) of the 1939 Code provides, among other things, that a person who wilfully fails to pay over any tax imposed by the chapter, as well as the tax on the transportation of persons, shall be liable to a penalty in the amount of the tax which was not paid to the Government. In the present case, where appellant had been notified by letter from the Deputy Commissioner of Internal Revenue that it should remit the transportation tax on charges made by it for transporting passengers by limousine between Portland and the airport, and where the District Court in *Royce v. Squire*, 73 F. Supp. 510 (W.D. Wash.) (affirmed on the ground that the tax was passed on), previously had held that appellant's limousine operations carried on in Seattle, which were similar to those of the present case, were subject to the transportation tax, appellant's failure to pay the tax strongly evidences a wilful act, i.e., an intentional action

taken without any reasonable cause. Consequently, the District Court was clearly correct in holding that the Commissioner's assessment of the penalty was proper.

ARGUMENT

I

THE DISTRICT COURT CORRECTLY CONCLUDED THAT APPELLANT'S VEHICLES WERE OPERATING ON AN ESTABLISHED LINE, AND THAT ITS FARES WERE SUBJECT TO THE TRANSPORTATION TAX UNDER SECTION 3469(a) OF THE 1939 CODE

Section 3469(a) of the 1939 code, *supra*, imposes a tax upon amounts paid within the United States for the transportation of persons by rail, motor vehicle, water or air. During July, 1950, the taxable period in the present case, the tax rate was 15 per cent. However, with respect to transportation by motor vehicles having a seating capacity of less than ten adult persons, the tax is applicable only if the vehicles are "operated on an established line." We submit that the District Court's decision, that the vehicles involved here were so operated, is fully supported by the facts, by the applicable Treasury Regulations and by the decision of *Royce v. Squire*, 73 F. Supp. 510 (W.D. Wash.) affirmed by this Court on other grounds, 168 F.2d 250.

Although Section 3469(a) does not define the term "operated on an established line," this term is defined by Section 130.58 of Treasury Regulations 42 (1942 ed.), *supra*, as follows:

The term "operated on an established line" means operated with some degree of regularity between definite points. It does not necessarily mean that strict regularity of schedule is maintained; that the full run is always made; that a particular route is followed; or that intermediate stops are restricted. The term implies that the person rendering the service maintains and exercises control over the direction, route, time, number of passengers carried, etc. It implies also that the primary contract between the operator and the person served is for the transportation of the person and not for the hire or use of the vehicle.

The undisputed facts clearly support the District Court's conclusion (R. 50) that appellant's limousines were operated on an established line during July, 1950, as that term is defined by the Regulations. The testimony of appellant's own witnesses and the exhibits reveal a high degree of regularity of operations between definite points — the downtown area of Portland and the airport. For example, appellant's limousines were operated with regularity to conform with the scheduled operations of the airlines serviced by appellant, so that they met all outbound and inbound flights when passengers either desired or were thought to desire limousine service. (R. 70.) Furthermore, the large number of trips

made by appellant between downtown Portland and the airport during that one month, 800 trips, clearly shows that appellant's service was regular. (R. 33, Exs. 2, 3, 4.) Appellant's operations were between definite points, Portland International Airport on the one hand and the downtown area of Portland on the other. (R. 76-77.) Although the drivers could select the route to be taken, and the routes varied according to weather and traffic conditions, drivers generally selected the most convenient and direct route, and practically all of the limousine trips were ten miles in length. (R. 71, 75-76, 83, 86-87, 89.) Outgoing passengers were picked up only at a limited number of places, the airline offices and three hotels, and were carried directly to the airport, whereas incoming passengers were transported from the airport to the downtown area with discharge privileges only along the general route toward downtown and within the downtown area. (R. 70-72, 75, 76-77.)

The facts also show that appellant, and not the airlines, exercised control over the limousines. Although the limousines were not dispatched on a trip without first receiving information from the airlines of the arrival or departure of passengers on scheduled flights, the testimony conclusively establishes that appellant was an independent contractor and that appellant's drivers alone could dispatch its limousines. Appellant's drivers selected the route between downtown Portland and the airport. (R. 71, 75-76.) Traffic being the main factor, and weather another. (R. 87.) Although

the airlines notified appellant's drivers of the number of passengers to be picked up, the places where they were to be picked up, and the time at which the airplane was scheduled to depart, it appears that the limousine drivers controlled the time they picked up the passengers and the route to be travelled in order to deliver the passengers to the airport in time to make the flight. (R. 45, 86.) As to inbound passengers, the drivers controlled the route to be taken and limited the discharge points to areas contiguous to the route of the limousine between the airport and downtown Portland, and to a defined area within downtown Portland. (R. 76-77.) Furthermore, appellant clearly controlled the movements of its limousines, in that where a limousine would arrive at the airport and no plane was due to arrive within a reasonable time, appellant would decide whether to keep a limousine at the airport to await the plane's arrival, or to return the empty limousine to its garage and later send another limousine to the airport. (R. 25-26.) The airlines did not sell tickets good for transportation to or from airports in appellant's limousines. The airline schedules showed fares but not times for limousine service. (R. 45.) Finally, it is undisputed that the contract between appellant and the airlines was for appellant's transportation of passengers, and not for the hire or use of the limousines by the airlines. (R. 101-102.)

Hence, it appears that in the conduct of its limousine service, appellant operated its limousines with regularity be-

tween definite points, and it maintained and exercised control over the direction and route adopted, schedules, and number of passengers carried. It was, therefore, engaged in the operation of "an established line" within the meaning of the applicable statute and Regulations.

Appellant, however, challenges the validity of Section 130.58 of Treasury Regulations 42 on several grounds. It contends, *inter alia*, that the word "established" as used in the statute connotes the creation or approval by a Governmental authority and that therefore the phrase "operated on an established line" must mean regular operation over a route fixed by some regulatory Government agency. (Br. 37-41.) It further contends that the Regulations have improperly broadened the requirement of regularity of operation by providing that strict regularity of schedule need not be maintained, nor a fixed route followed or intermediate stops restricted. (Br. 36-37, 42.)

We submit that appellant's contentions are not valid for the following reasons. For example, it should be noted that as used in the Regulations the word "established" means permanent recurring, or regular as opposed to sporadic or casual. This is a commonly accepted meaning of the term, and this meaning has been applied in various connections. See *Wells Lamont Corp. v. Bowles*, 149 F.2d 364, 366 (Em. App.). Furthermore, it has been held that the term "line" includes the operation under one management of a series of

public conveyances passing between places with regularity. *Bruce Transfer Co. v. Johnston*, 227 Iowa 50, 53, 287 N.W. 278, 280; *Regenhardt Const. Co. v. Southern Ry.*, 297 Ky. 840, 846, 181 S.W. 2d 441, 444; *Tuggle v. Parker*, 159 Kan. 572, 574, 156 P.2d 533, 534. As we have seen, appellant's limousines, in making some 800 trips between downtown Portland and the airport during July, 1950, made recurring trips between two places, and, therefore, operated on an "established line" within the generally accepted meaning of this term. Therefore, even if it be assumed that the interpretation contended for by appellant is a permissible one, which we deny, nevertheless appellant's interpretation must yield to that adopted by the Commissioner, for it is well established that where there is doubt as to the construction of a statute, the contemporaneous interpretation of the law by the department charged with its enforcement is generally held to be controlling where not arbitrary or unreasonable (*Brewster v. Gage*, 280 U.S. 327, 336-337; *Maryland Casualty Co. v. United States*, 251 U.S. 342, 349), and, as we have shown, Section 130.58 of Treasury Regulations 42 (1942 ed.) is not an arbitrary or unreasonable interpretation of Section 3469 of the 1939 Code.

The lack of merit in appellant's challenge of the validity of this provision of the Regulation is also apparent from the fact that the Regulations' interpretation of the term "operated on an established line" has continued without material change ever since this language first appeared in the trans-

portation tax statutes. Consequently, it must now be considered as having received Congressional approval and to have the force and effect of law.

The tax on transportation of persons by motor vehicle first appeared in the Revenue Act of 1917, c. 63, 40 Stat. 300. Section 500 of that Act provided, in material part, as follows:

Sec. 500. That from and after the first day of November, nineteen hundred and seventeen, there shall be levied, assessed, collected, and paid * * * (c) a tax equivalent to eight per centum of the amount paid for the transportation of persons * * * by any form of mechanical motor power on a regular established line when in competition with carriers by rail or water, * * *

The Act did not define the term "regular established line" and so far as can be determined, no administrative interpretations of that language were issued under the 1917 statute. The transportation tax was reenacted in substantially identical terms in Section 500 of the Revenue Act of 1918, c. 18, 40 Stat. 1057. Following passage of the 1918 statute, the Commissioner promulgated Treasury Regulations 49 (1919 ed.), relating to the collection of tax on transportation and other facilities. So far as relevant here, these Regulations provided as follows:

Art. 39. *Regular established line.*—The phrase "a regular established line" as used in section 500, subdivision (c), is held to mean a regularity of operation

of transportation facilities by motor power between definite points. If such motor transportation is furnished with regularity between points which are connected by rail or water routes, it is not necessary that the automobile or motor transportation pursue a specified route of travel. The regularity of operation of the motor transportation is the essential element of "a regular established line."

The tax on transportation was repealed as of January 1, 1922, by Section 1400 of the Revenue Act of 1921, c. 136, 42 Stat. 227. In the meantime, however, the regulatory provisions quoted above were presumably accepted as the correct interpretation of the law and applied by the Commissioner in administering the statute.

Following repeal of the transportation tax effective in 1922, no further attempt was made to tax the transportation of persons by motor vehicle until Section 3469 was added in 1941 to the Internal Revenue Code of 1939. While this provision is of broader application than its predecessors and differed somewhat in its terms from the former statutes, nevertheless it retained the language of the earlier Acts with respect to the operation of motor vehicles on an "established line."

Accordingly, when Treasury Regulations 42 were promulgated in 1942, the Commissioner adopted, without material changes, the definition of "established line" which was embodied in the earlier Regulations. The legislative approval

of the former Regulations, by reenactment of the statutory provision to which they relate, clearly gives such Regulations the force of law. *Wilmette Park Dist. v. Campbell*, 338 U.S. 411, 417-418; *Crane v. Commissioner*, 331 U.S. 1, 7-8; *Helvering v. Reynolds Co.*, 306 U.S. 110, 114-115; *Helvering v. Winnill*, 305 U.S. 79, 82-83.

Moreover, since 1941, Section 3469 of the 1939 Code has been changed both as to rates and as to substance.² The regulatory provisions have remained substantially unchanged during the periods in which the transportation tax on persons has been in effect, and during that time Congress has repeatedly reenacted without change the provisions of this section upon which the Regulations have been based. This action, taken with knowledge of the construction placed upon the statute by the Commissioner, requires the conclusion that the Commissioner's interpretation has not been inconsistent with the intent of the statute (*Mass. Mutual Life Ins. Co. v. United States*, 288 U.S. 269) and gives to the Regulations the effect of law (*Crane v. Commissioner*, *supra*; *Helvering v. Reynolds Co.*, *supra*).

² Section 609 of the Revenue Act of 1942, c. 619, 56 Stat. 798; Section 302 (a) of the Revenue Act of 1943, c. 63, 58 Stat. 21; Section 2, Joint Resolution of March 31, 1949, c. 46, 63 Stat. 30; Section 607 of the Revenue Act of 1950, c. 994, 64 Stat. 906; Section 494 of the Revenue Act of 1951, c. 521, 65 Stat. 452; Section 504(a) of the Excise Tax Reduction Act of 1954, c. 126, 68 Stat. 37.

Appellant's contention, that it was not authorized under the laws of Oregon to operate on "an established line" unless it had a permit to do so issued by the Public Utilities Commissioner of Oregon (Br. 38-41), lacks merit. In the first place, the record reveals only that appellant's limousines were operated under permit from the Public Utilities Commissioner of Oregon as provided in the Motor Transportation Code of the State of Oregon (Chapter 488, Oregon Laws, 1949, and Chapter 467, Oregon Laws, 1947). (R. 26, 48.) There is nothing in the record to support appellant's contention that it could operate only as an irregular route carrier under the Oregon statute. (Br. 41.) In any event, even were appellant permitted only to transport persons over irregular routes as that term is used in the Oregon law, this would not determine the tax consequences as to whether appellant "operated on an established line" in accordance with the Internal Revenue Code and the Treasury Regulations, particularly where, as here, the purposes and coverage of the state and federal statutes differ. See *Old Colony R. Co. v. Commissioner*, 284 U.S. 552, 562; *Kansas City Southern Ry. Co. v. Commissioner*, 52 F. 2d 372, 378 (C.A. 8th), certiorari denied, 284 U.S. 676; *Mine Hill & Schuylkill Haven R. Co. v. Smith*, 184 F.2d 422, 427 (C.A. 3d), certiorari denied, 340 U.S. 932.

As we have pointed out, *supra*, the material facts of this case are very similar to those of *Royce v. Squire*, 73 F. Supp. 510 (W.D. Wash.), affirmed by this Court on another

ground, 168 F.2d 250. For example, in both cases the passengers were picked up only at certain designated places. In both cases the drivers were free to select the route to the airport. Furthermore, as in *Royce*, there appears to be sufficient regularity of operation and control over such operation exercised by appellant in the present case to constitute its movements as an operation "on an established line."

Appellant does not contend that *Royce v. Squire* was wrongly decided by the District Court in Washington. Instead, it attempts to distinguish the present case from *Royce*. We submit that such differences as are noted by appellant (Br. 25-28) are not material, and that in all pertinent respects these cases are indistinguishable. For example, appellant's contention that it did not have a dispatcher in its Portland office is immaterial, since its drivers acted as dispatchers and controlled the movements of the limousines as effectively as the dispatcher did in *Royce*. Also, the fact that in Seattle appellant's limousines met all incoming planes, or that in Seattle 50 per cent of the passengers desired limousine service, whereas in Portland appellant's limousines met only those flights where passengers either desired limousine service, or were believed to desire such service, and that only 25 per cent of Portland passengers desired limousine service, does not affect the regularity of appellant's operation. Neither does there appear to be any material differences between *Royce* and the present case as to the routes taken by the drivers. In both cases the company, and not the airlines, con-

trolled the routes, since the drivers were permitted to select the particular streets to follow in view of traffic conditions. Although the Seattle drivers were instructed to follow the most direct route, this is not materially different from what occurred in Portland where the drivers also selected the best routes, and, with one exception, all of the 800 Portland trips were approximately ten miles in length. Nor can the cases be distinguished on the ground that in Seattle the drivers discharged their passengers only in the downtown area, whereas in Portland the drivers discharged passengers along the route from the airport to downtown Portland, since in both cases the limousines were primarily carrying passengers to a limited area of each city. Finally, the fact that the airline companies advised appellant of the places where it should pick up passengers does not detract from the effective control maintained by the Gray Line Company over the movement, routes, etc., of its limousines in both cities. Thus, it appears clear that the material facts of *Royce* and the present case are substantially the same, and the District Court was clearly correct in the present case in holding that appellant "operated on an established line." It also appears clear, after reviewing the facts in the present case, that the District Court's findings of fact were correct and were not erroneous, as contended by appellant. (Br. 29-32.)

Appellant places great reliance upon the conclusion reached by the Internal Revenue Service in Rev. Rul. 54-47,

1954-1 Cum. Bull. 269, that certain limousine services are exempt from the transportation tax. (Br. 47-48.) It should be noted, however, that the facts underlying this ruling are that passengers are picked up or delivered at any place or places designated by them, as distinguished from fixed pick-up and discharge points as existed in the present case. Consequently, in the situation set forth in the ruling, the limousine company could not exercise any control over the direction, route, etc., taken by its limousines, in contrast to the situation which occurred in the present case. Therefore, it is clear that this ruling is not applicable to the facts of the present case.

II

THE DISTRICT COURT WAS CORRECT IN FINDING THAT APPELLANT HAD NOT ESTABLISHED THAT IT HAD BORNE THE BURDEN OF THE TAXES, WHICH IS A PREREQUISITE TO ANY RECOVERY BY IT

Under Section 3471 (a) of the Internal Revenue Code of 1939, *supra*, in order to obtain a refund of transportation taxes, appellant must establish not only that the tax was erroneously collected, but also that it bore the burden of the

tax.³ *Royce v. Squire*, 168 F.2d 250 (C.A. 9th); *United States v. Walls* (C.A. 5th), decided April 12, 1956 (1956 C.C.H., par. 9446); *Sharp & Dohme v. United States*, 144 F.2d 456 (C.A. 3d). The reason for these statutory requirements is clear. If an operator has not borne the burden of the tax, to permit it to recover a refund would give it a windfall. *United States v. Jefferson Electric Co.*, 291 U.S. 386. As the Fifth Circuit recently held in *United States v. Walls*, *supra*, this presents a question of fact. In the present case the record is devoid of any convincing evidence to establish this fact. On the contrary, it is clear from the undisputed facts that appellant did not bear such burden.

It is undisputed that by letter dated June 30, 1948, D. S. Bliss, Deputy Commissioner of Internal Revenue, advised appellant that as a result of a field investigation, it was the opinion of the Revenue Service that appellant's limousines were operated on an established line within the meaning of Section 3469 of the 1939 Code, and that appellant immediately should begin to collect transportation taxes from its passengers. (R. 98-101.) The one-way charge then in effect, in accordance with a contract between appellant and the air-

³ Appellant might also recover if it shows that it refunded to its passengers the taxes which it had collected from them; or that it had obtained authority from such passengers to sue for a refund. But neither of these positions was asserted nor proved here.

lines, was eighty-five cents per passenger and sixty cents per airline employee. Following an agreement of August 21, 1949, between appellant and Northwest Airlines, appellant increased its fare to its passengers to one dollar, which fare was in effect during July, 1950.⁴ (R. 48, 49.)

During July, 1950, appellant admitted that \$4 of transportation taxes were properly assessed against it on one occasion when it provided bus service for twenty-four persons who were each charged a fare of one dollar. (R. 81-82.) Since the same one dollar charge was made for both limousine and bus travel during July, 1950, and appellant admitted that it included the tax in the amount collected from its bus passengers, in the absence of explanatory evidence the District Court was justified in finding that appellant likewise passed on the transportation taxes to its limousine passengers. Under such circumstances appellant has not shown that it bore the burden of the tax. *Royce v. Commissioner*, 168 F.2d 250 (C.A. 9th). Cf. *Coates v. Commissioner*, 161 F.2d 671 (C.A. 5th).

Appellant contends, however, that the decision of this Court in *Royce* is not controlling here because of certain alleged differences of fact. Appellant contends (Br. 50-54) that in *Royce* the fares were increased immediately after the tax rates were increased, the drivers notified their passengers

⁴ Appellant did not increase its sixty cent rate for airline employees after August 21, 1949. (R. 48.)

that the fares included the tax, and the fares and tax were segregated in the company's books, whereas in the present case appellant did not increase its rates for approximately one year after it received notification from the Revenue Service that it should collect and pay over the tax, its drivers did not advise their passengers that the fares included the tax, and appellant did not maintain any tax liability account in its books, but treated the entire amount received from its passengers as income. However, as the District Court below correctly pointed out (R. 34, 94), if, in fact appellant collected the tax from its passengers, when it charged the same amount for a non-exempt bus transportation as it did for its limousine service, it does not make any difference whether appellant did not regard part of the amount collected as including the tax, or did not advise its passengers of the collection of the tax, or maintain a tax liability account. *Cudahy Packing Co. v. United States*, 152 F.2d 831 (C.A. 7th), rehearing denied, 152 F.2d 836.

Upon examination of the entire record, it is clear that not only has appellant failed to make any showing that it bore the burden of the tax during July, 1950, but the undisputed facts clearly show that it collected the tax from its passengers.

THE DISTRICT COURT CORRECTLY HELD THAT
THE COMMISSIONER'S ASSESSMENT AND COL-
LECTION OF THE PENALTY WAS PROPER

Section 1718(c) of the 1939 Code, *Supra*, provides, in part, that any person who wilfully fails to collect and pay over any tax imposed by the chapter, as well as the tax on the transportation of persons, shall, in addition to other penalties, be liable to a penalty in the amount of the tax which was not paid over to the Government. In accordance with this provision, the Commissioner, in January 31, 1953, in addition to assessing a deficiency in taxes against appellant in the amount of \$330.65 for unpaid transportation taxes for July, 1950, also assessed a 100 per cent penalty against appellant, and interest. There is no question but that appellant did not pay any transportation taxes for July, 1950, until after the penalty and interest had been assessed against it. (R. 23.) Therefore, the only question which is involved here is whether appellant's prior failure to pay over these taxes was wilful, so that the penalty of Section 1718(c) was properly assessed.

The penalty imposed by this section is civil, not a criminal sanction, so that the term "wilfully," as used therein means "an act which is intentional, knowing, or voluntary, as distinguished from accidental" and one which was done "without reasonable cause," but it does not require that the act be

done with any bad purpose. *United States v. Murdock*, 290 U.S. 389, 394; *Kellems v. United States*, 97 F. Supp. 681 (Conn.).

In the present case it is clear that appellant's failure to pay over the transportation taxes for July, 1950, was intentional, without reasonable cause and was not the action of a reasonably prudent business concern. In the first place, appellant had been notified by letter dated June 30, 1948, by the Deputy Commissioner of the Internal Revenue that it should remit the transportation tax on charges made by it for transporting passengers by limousine between Portland and the airport. Furthermore, on June 16, 1947, the United States District Court for the Western District of Washington, in *Royce v. Squire, supra*, had held that appellant's limousine operations in Seattle, which were similar to those carried on in Portland, were subject to the transportation tax. In view of these facts, appellant cannot claim that its failure to pay the transportation taxes for July, 1950, was based upon reasonable cause.

Taxpayer contends (Br. 55-59) that its failure to pay over the tax was reasonable and not wilfull because it relied upon advice of counsel and upon advice of someone in the Collector's office in Portland that it was not required to pay the tax. In view of the letter sent to it by the Deputy Commissioner that it should pay the tax, as well as the District

Court's opinion in *Royce*, it is difficult to see how appellant could reasonably and prudently rely upon such advice without running a risk of having a penalty assessed against it.

CONCLUSION

The decision of the District Court is correct and should be affirmed by this Court.

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May, 1956.



No. 14978

United States
COURT OF APPEALS
for the Ninth Circuit

THE GRAY LINE COMPANY, a corporation,
Appellant,

vs.

R. C. GRANQUIST, District Director of Internal
Revenue,
Appellee.

APPELLANT'S REPLY BRIEF

*Appeal from the United States District Court for the
District of Oregon*

FILED

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INACCURATE FACTUAL STATEMENTS

Appellee has made inaccurate statements of fact in his brief. For example, Appellee says that passengers being brought from the airport were delivered at any place or places other than those designated in the Portland downtown area, provided such place or places were in the general direction between designated points (B.* 8). The uncontradicted evidence, however, shows that there

*The letter B as herein used refers to Appellee's brief.

were no designated places as such to which passengers being brought from the airport were regularly delivered in downtown Portland or elsewhere. On each trip each passenger going downtown instructed the limousine driver where in the downtown area to deliver him. Each passenger had this right without any limitation, and the discharge places in the downtown area varied from day to day (Tr. 72, 73, 77, 88, 90).

Under the heading "Summary of Argument", Appellee states that Appellant and not the passengers determined the pick-up points and the routes between such pick-up points and the airport (B. 13). This statement is directly contrary to the stipulated facts (PTO 10, 12, Tr. 24, 25), the evidence (Tr. 83) and the findings prepared by Appellee and approved by the court (Findings 10, 13, Tr. 45, 46) as shown in Appellant's brief at page 30. The evidence conclusively established that the drivers on their own initiative and not the Appellant determined the route and streets upon which to travel going to and from the airport (Finding 20, Tr. 48, 75, 76, 83, 87, 89, 90), and that the routes varied from day to day and trip to trip (Tr. 83, 87, 90).

Appellee refers to "appellant's limousine operation carried on in Seattle" (B. 14), and to "appellant's limousine operations in Seattle" (B. 32), claiming that the nature of Appellant's airport limousine service was considered and passed upon in *Royce et al. v. Squire*, 73 F. Supp. 510 (D.C.W.D. Wash. 1947). Appellant has never engaged in the airport limousine business in the City of Seattle, Washington, and was not a party to the *Royce* case.

Reply to Appellee's Argument headed: "I. The District Court correctly concluded that Appellant's vehicles were operating on an established line, and that its fares were subject to the transportation tax under Section 3469 (a) of the 1939 Code" (B. 15).

At the outset Appellee's entire argument on this point is based on an erroneous premise. In order to fit Appellant's airport limousine service into the language of Section 130.58 of Treasury Regulations 42, Appellee found it necessary to surmount among others the obstacle which was raised by the requirement that the operation be "between definite points". To accomplish this, Appellee took liberty with the facts.

Appellee states that "definite points" existed, to-wit: Portland International Airport and the downtown area of Portland (B. 17). Appellee ignores the true facts that Appellant's operations were between indefinite, not definite, points in the downtown area of Portland, which points varied from trip to trip, and the Airport with respect to outgoing trips, and between the airport and various indefinite points in the Northeast and the downtown areas of Portland with respect to incoming trips.

The downtown area of Portland contains approximately 520 acres.¹ The area in which passengers would be delivered on the East side of Portland is even larger in scope.

¹Exhibit 13 is a Map of the City of Portland. The downtown area bounded by Columbia Street on the South, 16th Avenue on the West, the Railroad Depot on the North, and the river on the East, scales to approximately 22,640,000 sq. ft., or 520 acres.

The "downtown area of Portland" is one of the so-called "definite points" referred to by Appellee. That is not a definite point within the meaning of the Regulation. As used in the Regulation, the term "definite points" means points between which a transportation company's vehicles are driven to pick up or discharge passengers, as well as points to which passengers desiring transportation will go in order to get on the same, and to which passengers will be delivered. These points constitute "points" within the meaning of the Regulation. A highly developed municipal area of 520 acres, divided into blocks 200 feet square, in which area there are any number of indefinite places at which a limousine company will pick up and discharge passengers, does not constitute a point. If airline passengers were informed by the airline company that they will board the limousine in "the downtown area of Portland", they would not know where to go to get on the vehicle. Certainly they cannot see from place to place within the area as they might do in looking across an open area. In the latter case they might be able to see a vehicle anywhere in a large area. They can't do that in downtown Portland. Likewise if a driver were told to pick up a passenger in the "downtown area of Portland", where would he go to find the passenger? Appellee's selection of the "downtown area of Portland" as one of two alleged "definite points" is nothing more than a distortion of the facts made in order to try to fit them into the framework and requirements of the Regulation.

Appellee has attempted to buttress his argument on this issue with other inaccuracies. Thus east side dis-

charge privileges were inaccurately stated to have been limited on trips from the airport to east side points "contiguous to" or "along the general route" towards downtown (B. 18, 17), the inference here being that there was a route. Appellee cited pages 70-72, 75, 76 and 77 of the transcript of record as his authority. An examination of those pages shows that the only requirement was that the discharge places on the east side be in the general direction of downtown. Evidence conclusively established that there was no route as such, and that insofar as discharge privileges of the east side were concerned, the drivers would leave the streets on which they were traveling in order to discharge passengers at any place designated by the passengers in the general direction of downtown Portland (Findings 11, 20, Tr. 46).

Appellee also stated that the limousine drivers controlled the time they picked up the passengers (B. 18). This is an inaccurate statement. The passengers were notified by the airline company, upon making arrangements for limousine transportation, "of the time when . . . the limousine would depart" (Finding 10, Tr. 45).

The evidence established that Appellant did not operate its limousines "on an established line" within the meaning of Sec. 3469 and of the Regulation. Congressional intent must be determined only by construing the word "established" in context. It is used in conjunction with line, thus—"established line". Even Appellee concedes that as used in the Regulation, "established" means "permanent", "recurring" or "regular" (B. 19),

and that a "line" requires, in itself, regularity. Therefore, an "established line" must require more than mere regularity—it must have permanence if an "established line" is to be more than a "line".

Appellee cites *Wells Lamont Corp. v. Bowles*, 149 F. 2d 364 (Em. App. 1945), which involved a violation of OPA ceiling prices, and in which the court, construing the term "established practice" stated:

" . . . To establish is to make stable or firm; to fix in permanence and regularity, to settle or secure on a firm basis, to settle firmly or to fix unalterably." 149 F. 2d at 366.

This case clearly supports Appellant and shows that "established" means firm, permanent or unalterable, and as used in the term "established line" means a line having a firm, permanent, and unalterable existence. Also, see *Public Utilities Commission v. Pulos*, 75 Utah 527, 286 Pac. 947 (1930), quoted at page 37 of Appellant's brief, which holds that in cases wherein transportation is concerned, an established route or line, in addition to other requirements, is one "that has a legal existence". Appellant's limousine service had no firm, permanent, unalterable or legal existence. It continued solely at sufferance and could be discontinued at will in the case of two of the airlines, and on thirty days' notice in the case of the third (Tr. 69, 70, 106).

The cases cited by Appellee on page 20 of his brief support Appellant's contention that a "line" which lacks legal existence is not an "established line" within the meaning of Sec. 3469. Thus, in *Regenhardt Const. Co. v. Southern Ry.*, 297 Ky. 840, 181 S.W. 2d 441, the court

stated that "in railroad parlance, 'a line' is an operating unit under one management over a *designated way or right of way*" (emphasis supplied). In *Tuggle v. Parker*, 159 Kan. 572, 156 P. 2d 533, the court held that a taxicab company was engaged in operating a motor transportation business but was not within the provisions of a statute relating to a "motor transportation line". These cases show that, where transportation is concerned, "a line" requires something more tangible than an operation such as conducted by Appellant.

Appellee does not contend that the words "established line", as used in Sec. 3469, have any meaning other than that set forth on pages 34-38 of Appellant's brief. Appellee's contention seems to be that, irrespective of the language of the statute, the Regulation is controlling. This obviously is incorrect. The Regulation must be construed to give effect to the language of the statute, as it does not have the force and effect of a congressional enactment unless its requirements are within the scope of the statute. But, even were Appellee's contention correct, the evidence shows that, by the very test set up in the Regulation, Appellant was not operating its limousines "on an established line". This is clearly pointed out at pages 44-47 of Appellant's brief.

Appellee relies upon the doctrine of administrative construction, citing *Brewster v. Gage*, 280 U.S. 327 (1930), and *Maryland Casualty Co. v. United States*, 251 U.S. 342 (1920). In the *Maryland Casualty* case, the court stated that a regulation "has the force and effect of law *if it be not in conflict with express statutory*

provision" (Emphasis supplied). In the *Brewster* case, the court held merely that the interpretation of an ambiguous or doubtful statute by officials charged with its administration will not be disturbed where the interpretation "is reasonable and does no violence to the letter or spirit of the provisions construed", and where a "reversal of that construction would be likely to produce inconvenience and result in inequality". These cases clearly do not support the proposition for which Appellee cited them.

The construction urged by Appellee is not controlling in this case. Appellee's interpretation of the regulation "does violence" to the letter and the spirit of Sec. 3469, and is, therefore, not reasonable.

There is no logic to the argument propounded on pages 20 to 22 of Appellee's brief. Both Section 500 of the Revenue Act of 1917, c. 63, 40 Stat. 300, and Art. 39 of Treasury Regulations 49 promulgated thereunder applied to motor vehicles operating "on a regular established line when in competition with carriers by rail or water". The language there used is different than that employed by Sec. 3469 and by Sec. 130.58 of Regulations 42. There is nothing to indicate that a regulation promulgated in connection with a statute first passed in 1917, and then repealed in 1921 had such legislative approval as to have "the force and effect of law" with respect to a statute enacted in different terms a generation later.

The tax on transportation was repealed by Section 1400 of the Revenue Act of 1921, c. 136, 42 Stat. 227. For the next twenty years there was no statute taxing

the transportation of persons by motor vehicles. The enactment of the tax on transportation of persons as part of the Revenue Act of 1942 did not constitute a reenactment of the earlier statute.

The cases cited by Appellee on page 23 of his brief are of no benefit to him as they are not applicable here. In *Wilmett Park Dist. v. Campbell*, 338 U.S. 411 (1949), there had been a long continued administrative construction followed by repeated reenactment of the relevant language without change in the Revenue Acts of 1918, 1921, 1924, 1926, 1928, 1932, 1935, 1939, 1941. Thus, the case concerned a regulation in effect for more than 20 years. The same situation existed in *Crane v. Commissioner*, 331 U.S. 1 (1947), *Helvering v. R. J. Reynolds Tobacco Co.*, 306 U.S. 110 (1939), and *Helvering v. Winmill*, 305 U.S. 79 (1938). In the *Crane* case, there was a dispute concerning the interpretation of the word "property" as used in the Revenue Act of 1938. The opinion mentioned the regulation involved as having been in effect since 1918, and stated that the regulation may be considered to have the force of law "as the relevant statutory provision has been repeatedly reenacted since then in substantially the same form". The report of the case foot-noted the quoted sentence by citing the Revenue Acts of 1921, 1924, 1926, 1928, 1932, 1934, 1936 and 1938.

It is noteworthy that in the *Crane* case, *supra*, the Court stated:

". . . In the first place, the words of statutes—including revenue acts—should be interpreted where

possible in their ordinary, everyday senses." 331 U.S. at 6.

In that case the Supreme Court found that the Commissioner's regulation was in harmony with this statement. The everyday meaning of the term "operated on an established line" is set forth on pages 35 through 38 of Appellant's brief, and Appellee did not point to any case holding otherwise. His only case dealing with the term is the *Wells Lamott* case, *supra*, which as shown tends to support Appellant rather than Appellee.

In *Helvering v. R. J. Reynolds Tobacco Co.*, 306 U.S. 110 (1939), the sole question was whether gain to a corporation on the purchase and resale of its own shares constituted gross income within the meaning of Section 22(a) of the Revenue Act of 1928. The Court felt that the section was so general in its terms as to render an interpretative regulation appropriate, and stated as follows:

"The administrative construction embodied in the regulation has, since at least 1920, been uniform with respect to each of the Revenue Acts from that of 1913 to that of 1932, as evidenced by Treasury rulings and regulations, and decisions of the Board of Tax Appeals. In the meantime successive revenue acts have reenacted, without alteration, the definition of gross income as it stood in the Acts of 1913, 1916, and 1918." 306 U.S. at 114.

The court, in its footnote, referred to the Revenue Acts of 1913, 1916, 1918, 1921, 1924, 1926, 1928, 1932.

The *Winmill* case, *supra*, involved the interpretation of Section 23 of the Revenue Act of 1932. A regulation

specifying the treatment to be given certain commissions paid by a taxpayer was issued under this act. Regulations promulgated under the 1916 act were substantially the same as the 1932 regulation. With respect to the 1916 regulation, the court said:

“ . . . This interpretation has consistently reappeared in all regulations under succeeding tax statutes . . . it is significant that Congress substantially retained the original taxing provisions on which these regulations have rested.” 305 U.S. at 82.

In a footnote, the court cited the interpretative regulation under succeeding statutes in the years 1918, 1921, 1924, 1926, 1928, 1932, 1934 and 1936.

Thus, in the *Willmetts Park, Crane, Reynolds Co.* and *Winmill* cases, a statute in substantially the same form was in constant effect by virtue of various reenactments. Obviously, the fact that there was no statute taxing the transportation of persons by motor vehicles for more than twenty years makes the doctrine of the cases cited by Appellee inapposite, for in each of said cases the statute had been constantly in force and the provision constantly reenacted. The enactment of Sec. 3469 in 1942 clearly did not signify legislative approval of a regulation long since forgotten.

A case more on point than those cited by Appellee is *Janney et ux. v. Commissioner*, 108 F. 2d 564 (3d Cir. 1939), affirmed, *Helvering v. Janney et al.*, 311 U.S. 189 (1940), where a regulation was promulgated under the Revenue Act of 1934. The particular section of the 1934 act to which the regulation related was reenacted in 1936 and, in changed form, in 1938. The regulation was

not changed during this period. The Third Circuit held that the rule of administrative construction was not applicable, stating

“... In most of the cases where the rule has been invoked the administrative act has been approved by successive enactments without change, and emphasis is laid, in the application of the rule, on the extended continuity of the construction . . .” (108 F. 2d at 567).

Where twenty years elapse, there is no rule that infers “legislative approval” of a short lived regulation long since dead.

Appellee states that “Section 3469 of the 1939 code has been changed both as to rates and as to substance” since 1941 (B. 23). The changes made by the Revenue Acts of 1942, 1943 and 1954 effected only the tax rate. The 1949 change added a sentence not related to the provision with which we are concerned. The 1950 Act expanded the coverage of the transportation tax without mention of the provision exempting transportation of persons by motor vehicles having a seating capacity of less than 10 persons, and the Revenue Act of 1951 added an exemption on certain foreign travel. It is submitted that *a specific change does not constitute a reenactment of unmentioned and unrepeated provisions.*

In each instance, cited by Appellee (B. 23), there was a specific amendment of the statute for a specific purpose, and not a reenactment thereof. In no instance did Congress reenact or amend the provision relating to the exemption from the transportation tax of motor vehicles having a passenger seating capacity of less than

10 passengers. A change of a provision of a tax statute is quite different from a reenactment thereof. In cases of reenactment, there may be the inference that all provisions and published administrative interpretations of a statute are considered by Congress. No such inference arises with respect to a specific amendment.

Defendant concludes this phase of his argument with citations to cases including one not herein previously considered, namely, *Massachusetts Mutual Life Insurance Co. v. United States*, 288 U.S. 269 (1933) (B. 23). Like the other cases cited by Appellee and for the same reasons, this case can give no comfort to the Appellee, as there again, there was a statute reenacted from time to time, but at all times in force from the date of its original enactment in substantially the same form. Obviously this is not so in the case at bar.

In view of the differences in the facts, the *Wilmett Park, Crane, Reynolds Co., Winmill* and *Massachusetts Mutual* cases obviously do not support the points for which they are cited by Appellee. The true rule with respect to the force and effect of the regulation is stated in the cases cited on page 42 and 43 of Appellant's brief² and in *Janney et ux v. Commissioner*, 108 F. 2d 564 (3d Cir. 1939), aff'd 311 U.S. 189 (1940); *Jones v. Lib-*

²*Morrill v. Jones*, 106 U.S. 466 (1882), *Smith v. Commissioner*, 142 F. 2d 818 (9th Cir. 1944), *New Idria Quicksilver Mining Co. v. Commissioner*, 144 F. 2d 918 (9th Cir. 1944), *Hawke v. Commissioner*, 109 F. 2d 946 (9th Cir. 1940), *Allis v. LaBudde*, 128 F. 2d 838 (7th Cir. 1942), and *Commissioner v. Van Vorst*, 59 F. 2d 677 (9th Cir. 1932).

erty Glass Co., 332 U. S. 524 (1947); and *F. W. Woolworth Co. v. United States*, 91 F. 2d 973 (2d Cir. 1937).

The so-called doctrine of legislative acquiescence in administrative or judicial construction of a statute cannot in and of itself result in a conclusive interpretation of the statute. It cannot bind the court. In *Jones v. Liberty Glass Co.*, *supra*, the Supreme Court of the United States said:

"... the doctrine of legislative acquiescence is at best only an auxiliary tool for use in interpreting ambiguous statutory provisions." 332 U.S. at 533, 534.

In the *Janney* case, *supra*, the court stated:

"But administrative regulations are not conclusive, but are at most decisions which can be changed, and afford to the courts in the ultimate test nothing more than persuasive rules of construction. It has never been said that administrative action removes the statute from the field of judicial construction." 108 F. 2d at 567.

In *F. W. Woolworth Co. v. United States*, *supra*, Judge Learned Hand stated:

"... To suppose that Congress must particularly correct each mistaken construction under penalty of incorporating it into the fabric of the statute appears to us unwarranted; our fiscal legislation is detailed and specific enough already. While we are of course bound to weigh seriously such rulings, they are never conclusive." 91 F. 2d at 976.

The record shows that Appellant's airport limousine service was operated only as an irregular route carrier under Oregon law (Ex. 12; Or. Laws 1947, c. 467; Or. Laws 1949, c. 488). It did not operate from a fixed termini over a regular route upon fixed schedules (Findings 20,

Tr. 48, 49, 68, 75, 76, 82, 87, 90, 91). The cases cited by Appellee on page 24 of his brief do not relate to Federal tax consequences arising out of state laws, but are concerned with the effect of rulings and requirements of the Interstate Commerce Commission.

In the last paragraph beginning on page 24, Appellee repeats his oft made statement that the material facts of this case are similar to those of *Royce et al. v. Squire*, 73 F. Supp. 510 (D.C.W.D. Wash. 1947) as if constant repetition will make it so. As an example of such material similarities, Appellee states that "in both cases the passengers were picked up only at certain designated places" and "the drivers were free to select the route to the airport". Appellee has again taken liberty with the facts. It is not correct to state that passengers were picked up only at "certain" designated places. They would be picked up by Appellant at any place in the downtown area where passengers instructed the airline they desired to board the limousine (Finding 10, Tr. 45, 83). As for the second point, the Seattle drivers were instructed to follow the most direct route going to or from the airport (*Royce* Finding XII, 73 F. Supp. at 512). Appellant gave its drivers no such instructions (Finding 20, Tr. 48, 74, 86, 90).

The difference between the facts of the *Royce* case and those of the instant case are material and go to the very essence of the issue to be determined by this court. One needs only to read the *Royce* case to realize this: Appellee does not deny that these differences exist, but, to the contrary, admits they do, and, attempts to avoid

the consequences by stating that the material facts are the same. This confuses no one.

Appellee, on page 25 of his brief, states that "Appellant does not contend that *Royce v. Squire* was wrongly decided by the District Court . . ." Appellant has not felt that it is necessary to make any contention as to the correctness of the District Court decision in the *Royce* case, as the material differences in the facts of this case and those found in *Royce* were shown in Appellant's brief at pages 25-28. Whether the Washington District Court was right or wrong is not material here, as the facts in this case clearly show that Appellant's airport limousine service was not "operated on an established line".

Appellee's repetition on page 26 of the inference that The Gray Line Company, Appellant here, was the party involved in the Seattle case is also unfounded and untrue. Appellee could easily have discovered the truth if he doesn't already know it.

In its final discussion of this issue, Appellee dismissed briefly Revenue Ruling 54-47 (B. 26, 27). There was not much else he could do. It is clearly in point. This ruling was promulgated prior to June, 1954, and is the only published interpretation of Sec. 3469 ever made with respect to whether an airport limousine service such as Appellant's constitutes operating "on an established line". The ruling clearly shows that vehicles operated in a manner such as the Appellant's limousine "are not considered operated on an established line within the meaning of Section 3469". Under this Revenue Ruling,

the essential fact is that the limousine company did not establish the pick-up and discharge points and not necessarily who designates those points.

The ruling in part reads:

“Where . . . passengers are picked up or delivered at any place or places designated by them, as distinguished from fixed pickup and discharge points established by the limousine company, such vehicles are not . . . operated on an established line . . .” (Emphasis supplied).

Under this ruling the operation is not on an established line if either the pickup or delivery point is not designated by the limousine company. The reason for this is that the disjunctive “or” is used in the ruling.

In the case at bar, Appellant did not establish “pick-up” points. Prior to each trip to the airport, pickup points for the trip were designated to the drivers by the airline companies after the airline passengers had informed the airline of the points where they wished to board the limousine (Findings 10, 13, Tr. 45, 46, 83). On trips from the airport, the passengers and no one else determined the discharge points.

There were no fixed pickup and discharge points in the present case. Appellee’s statement that there were does not make it so. The facts underlying the ruling are substantially similar to the facts of this case. The ruling clearly shows that Appellant’s limousines were not being operated on an established line within the meaning of the statute.

Reply to Appellee's Argument headed: "II. The District Court was correct in finding that Appellant had not established that it had borne the burden of the taxes, which is a prerequisite to any recovery by it" (B. 27).

Section 3471 (a) of the Internal Revenue Code of 1939, cited by Appellee (B. 27), does not apply in this case. It applies only in cases where the person claiming refund "collected the tax" from the passengers "and paid it to the United States". In this case, Appellant collected no tax (Tr. 80, 81).

This action is permitted under the sections 3770 (a) (1) and 3772 (a) (1) of the Internal Revenue Code of 1939.

Section 3770 (a) (1) provides, in part, as follows:

" . . . the Commissioner, subject to regulations prescribed by the Secretary, is authorized to remit, refund, and pay back all taxes erroneously or illegally assessed or collected, all penalties collected without authority, and all taxes that appear to be unjustly assessed or excessive in amount, or in any manner wrongfully collected."

Section 3772 (a) (1) provides:

"No suit or proceeding shall be maintained in any court for the recovery of any internal revenue tax alleged to have been erroneously or illegally assessed or collected, or of any penalty claimed to have been collected without authority, or of any sum alleged to have been excessive or in any manner wrongfully collected *until a claim for refund or credit has been duly filed with the Commissioner*, according to the provisions of law in that regard, and the regulations of the Secretary established in pursuance thereof." (Emphasis ours).

Section 130.78 of Treasury Regulations 42 provides, in part, as follows:

“Where a collecting agency has erroneously or illegally overpaid from its own funds any tax, the collecting agency may claim a refund of such overpayments.”

Appellant collects transportation taxes on account of its sightseeing operations (Tr. 66, 93), so it is a collecting agency within the meaning of the regulation last mentioned.

Appellee ignores the evidence and is wrong in saying that “it is clear from the undisputed facts” that Appellant did not bear the burden of the tax (B. 28). One needs only read the record to discover the truth. All of the facts are consistent with the conclusion that the tax was paid by Appellant from its own funds and was not passed on to the passengers.

Appellant mentions two facts to support its position—the letter from Deputy Commissioner of Internal Revenue, D. S. Bliss dated June 30, 1948 (Ex. 21), discussed at pages 53 and 54 of Appellant’s brief, and the fact that a bus was used one time during the month, discussed at pages 52 and 53 of Appellant’s brief.

As to the Bliss letter, there is absolutely no correlation between the agreement of August 21, 1949 (Ex. 22), and the letter written by Mr. Bliss. It cannot be even properly inferred that Appellant began collecting transportation tax from its airport passengers just because Mr. Bliss informed Appellant to do so. Appellant’s operations did not change after receipt of the Bliss letter. Had Appellant raised its fare in order to comply with that letter, it would not have waited 14 months to

do so, and it would have raised the fare charged airline employees also. The only reason for a fare increase was that costs had increased between 1944 when the 85¢ fare was charged and 1949 when the fare was increased to \$1.00.

The waybills (Ex. 2) show that in the predrawn hours of July 20, a bus was used to carry 18 passengers, each of whom paid \$1.00. A tax of 15%, or \$2.70 is due on these fares, as through inadvertance, Appellee failed to report this amount in its transportation tax returns for July, 1950. There is no penalty due on this, as the omission was obviously an oversight and was not willful.

The evidence does not warrant the erroneous conclusion which Appellee attempted to derive from this isolated incident (B. 29). At the trial, Appellant's counsel mentioned that a tax was owed on account of the fares paid by the bus passengers. Appellant's counsel did not admit the fare included the tax—he merely admitted that Appellant was liable for the tax on account of fares paid by the bus passengers (Tr. 81, 82).

The overwhelming evidence in this case shows that Appellant paid the tax from its own funds and did not pass the burden on to the passengers. Appellant did not collect or attempt to collect any sum as a tax from its limousine passengers (Tr. 80, 81). Nothing was set aside or regarded by it as a tax (Tr. 81). The drivers did not have any discussions with passengers about transportation taxes or tell the passengers that the fares included any transportation tax (Tr. 87, 90, 91). All fares were maintained as a single item of revenue on

Appellant's books, and the entire amount of fares paid by the airport passengers was treated by Appellant as revenue (Finding 28, Tr. 50, 92, 93, Exs. 6, 7, 10). The airlines were billed by Appellant only for the agreed fare and were not billed any additional amount as a tax.

None of the limousine revenue was shown on Appellant's books as a tax obligation (Finding 28, Tr. 50). When the assessment involved in this case was paid, it was paid by Appellant from its own funds (Tr. 82), and was charged to an account called "Other Deferred Debits", and was neither entered nor recognized as a tax liability (Tr. 93).

The foregoing recitation sets forth the facts material to this issue. They are the facts which directly establish that Appellant bore the burden of the tax. They are the facts which distinguish this case from the *Royce* case.³ They are absolutely contrary to the facts upon which this court in the *Royce* case relied. These differences were shown on pages 50-52 of Appellant's brief. The only factors cited by Appellee have been discussed, and they are collateral to the issue of who bore the burden of the tax. Facts bearing directly on that issue are dismissed by Appellee with hardly a mention, for all those facts, as shown by Appellant, are conducive to only one conclusion—that Appellant bore the burdens of the tax assessment in this case.

Appellee has cited *Coates v. Commissioner*, 161 F. 2d 671 (5th Cir. 1947) (B. 29), and *Cudahy Packing Co. v. United States*, 152 F. 2d 831 (7th Cir. 1945) (B.

³*Royce et al. v. Squire*, 168 F. 2d 250 (9th Cir. 1948).

30). Both cases involved taxes under the Agricultural Adjustment Act.

In the *Coates* case, the evidence disclosed that the taxpayer added the tax in fixing its price, tried to pass the tax on, and offered no evidence, oral or written, that it did not do so, except the bare statement of its president. In the case at bar, Appellant introduced its records to support the testimony of its witnesses that no tax was passed on to the limousine passengers.

In the *Cudahy* case, the taxpayer admitted that it could not be ascertained from its book whether or not it had shifted the burden of the tax. In view of that the court stated:

“. . . We have repeatedly held that such statements are insufficient under the statute to furnish a basis for an allowance of refund. . . .” 152 F. 2d at 834.

The court also found that the taxpayer had, on the date of the incidence of the tax, increased its prices by the amount of the tax. That was obviously not the case here, and again points up the distinctions between this case at bar and those relied upon by Appellee.

Appellant not only bore the burden of the tax involved in this case—it also established that fact by uncontradicted evidence. The record leaves no doubt as to this.

Reply to Appellee's Argument headed: "III. The District Court correctly held that the Commissioner's assessment and collection of the penalty was proper."

Appellee agrees with Appellant as to the meaning of the word "willfully" as used in Section 1718 (c) of

the Internal Revenue Code of 1939. Where penalties are concerned, "willfully" means without reasonable cause. This issue was discussed at pages 55-59 of Appellant's brief.

Appellee states that Appellant did not have "reasonable cause" in view of the fact that the Deputy Commissioner of Internal Revenue disagreed with Appellant's tax advisers as to the applicability of Sec. 3469 to Appellant's limousine operations and in view of the fact that in the *Royce* case, the District Court had held that "appellant's limousine operations in Seattle, which were similar to those carried on in Portland, were subject to the transportation tax". Once again, Appellee has paid slight if any attention to the realities of this case and has ignored the facts.

In the first place, the informal opinion of a Deputy Commissioner of Internal Revenue does not have the force and effect of law and is not determinative as to the correct interpretation of the law. This was discussed in Appellant's brief at pages 55-59. Appellant was justified in following the advice of its independent tax attorneys. To do so was not unreasonable.

In the second place, Appellant was not a party to the *Royce* case and did not engage in the airport limousine operations in Seattle. The operations of the limousine company in Seattle were not similar to the manner in which Appellant conducted its operations, as shown at pages 25-28 of Appellant's brief.

Appellant has honestly and consistently taken the position that its limousine operations were not subject

to Sec. 3469. In doing so, it followed the advice of its attorneys. It kept complete records of its operations and made its records available to the government. Contesting the Commissioner's interpretation under such circumstances is reasonable, and is not willful. Appellant chose an honest course of action, one which it maintains to this day is correct. The law does not subject a taxpayer to the risk of a 100% penalty for such conduct as this.

CONCLUSION

Appellee has failed satisfactorily to answer Appellant's brief and the arguments made therein. Some of Appellant's points have gone unanswered. Appellant, in its brief, has shown that it was not operating its limousines "on an established line" within the meaning of Sec. 3469, that it did not pass the burden of the tax on to its limousine passengers, but carried the burden with its own funds, and that, at all times, Appellant acted with reasonable cause and business prudence in this matter. Therefore, the judgment of the trial court should be reversed.

Respectfully submitted,

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No. 14978

United States
COURT OF APPEALS

for the Ninth Circuit

THE GRAY LINE COMPANY, a corporation,
Appellant,

vs.

R. C. GRANQUIST, District Director of Internal
Revenue,
Appellee.

APPELLANT'S PETITION FOR REHEARING

*Appeal from the United States District Court for the
District of Oregon*

FILED

NOV -9 1956.

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*Appeal from the United States District Court for the
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To the United States Court of Appeals for the Ninth
Circuit and the Honorable William Healy, Walter L.
Pope, and Dal M. Lemmon, Judges thereof:

Comes now the appellant in the above entitled cause
and hereby respectfully petitions this Honorable Court
for a rehearing of the above entitled cause, and respect-
fully shows:

The appeal in this cause was argued in Portland,
Oregon, on September 5, 1956 before the Honorable
Judges above named.

October 12, 1956, this Court rendered its decision in favor of the appellee on the question of whether appellant was operating its vehicles "on an established line" within the meaning of section 3469 (a), IRC 1939, and on the question of whether appellant collected transportation taxes from passengers going to and from the Portland airport in appellant's vehicles, and in favor of the appellant on the question of whether it was liable to a penalty under section 1718 (c), IRC 1939.

The grounds upon which the appellant relies are as follows:

I

This Court in a material way misapprehended the evidence. The evidence clearly shows that the appellant's operation was not on an "established line" within the meaning of Section 3469 (a) of the Internal Revenue Code of 1939, and that this Court was in error in holding otherwise.

II

This Court overlooked Revenue Ruling 54-47 which shows that appellant's airport limousine service was not operated "on an established line."

III

This Court erred in treating Regulations 42, Section 130.58 as though it governed the issue of whether appellant's operation was on an established line, or as though it had the force of law.

IV

Even within the meaning of Regulations 42, Section 130.58, appellant was not operating said limousine service on an established line, and this Court erred in concluding otherwise.

V

This Court erred in upholding the lower court's finding and conclusion that the fares paid to appellant by the limousine passengers included transportation tax; and erred in holding that such fares included such tax.

**STATEMENT OF FACTS AND POINTS OF LAW
UPON THE ABOVE GROUNDS****I, II, III and IV**

Appellant respectfully submits that the Court was mistaken in holding that appellant's limousine service was operated on an established line. The evidence clearly shows appellant was not operating its vehicles "on an established line" within the meaning of Section 3469 (a) of the Internal Revenue Act of 1939.

In deciding that the appellant's operation was on an established line, this Honorable Court did not mention Revenue Ruling 54-47 discussed on pages 47-48 of Appellant's Brief and pages 16-17 of Appellant's Reply Brief. (Revenue Ruling 54-47 was incorrectly cited at p. 47 of the Appellant's Brief. The correct citation is Internal Revenue Bulletin, Cumulative Bulletin, 1954-1, p. 269.)

This ruling is a clear determination by the Commissioner that where limousines are operated to and from an airport and surrounding areas and passengers are picked up and delivered at any place or places designated by them, "as distinguished from pick up and discharge points established by the limousine company," such vehicles are not considered operated on an established line, and if they have a seating capacity of less than ten adult passengers, including the driver, the tax is not applicable to amounts paid for such transportation. This ruling determined that an operation essentially the same as that involved in the case at bar did not come within the statute. The significant thing about this ruling is not who established the pick up or discharge points, but that they were not established by the limousine company. The relevant language of the statute has never been changed. The ruling tells the meaning of the statute as it is now and as it always has been. The ruling does not speak prospectively only, any more than does a court decision.

The appellant did not establish any pick up points. It did not designate the places to which the passengers were delivered. The facts on this point are clear and uncontradicted and brings this case directly within the scope of the revenue ruling.

Treasury Regulations 42, Section 130.58 is discussed in the opinion (Op. 5). This section of the Regulations deals only with generalities. When an actual case similar to that with which we are concerned was presented to the Commissioner, he departed from generalities and

dealt with the matter specifically in Revenue Ruling 54-47. This ruling being definitive of the statute and specific in application, controls.

This Court recognized the fact that the appellant did not designate the places of pick up. In the Opinion, the Court stated:

“He [the driver] would then pick up passengers at the places so designated [to the driver upon telephone call to the airline company] and drive them to the airports.” (Op. 2.)

It is respectfully submitted that the Court should have considered Ruling 54-47, and should have given decisive weight to the fact that appellant did not designate pick up or discharge points.

Even if Treasury Regulations 42, Section 130.58, rather than Revenue Ruling 54-47 were a proper criterion in the case at bar, appellant's operation was not “on an established line.”

This Court's opinion speaks of “the garage and the three hotels” as being “definite points.” Ruling 54-47 cannot be disregarded in ascertaining the meaning of “definite points.” By this ruling the Commissioner has said in substance that the term “definite points” as used in the Regulations with respect of operations similar to appellant's means points “established by the limousine company” (App. Br. 47). The hotels were not designated by appellant, but by the airlines and the passengers (Finding 10; Tr. 45, 75, 86, 88, 90). This Court recognized this fact in its opinion (Op. 2). The record

shows that the limousines went only to those hotels or places which the passengers had designated as the places where they would board the limousine, and no where else (Finding 13; Tr. 46, 71, 75). The garage was no exception. It was only the home base. No passenger line operated to or from the garage. The fact that "in some instances" passengers desired to and did board a limousine at the garage, does not make it a "definite point" within the meaning of Treasury Regulations 42, Section 130.58 as appellant did not designate pick up points (Finding 10; Tr. 45, 83).

V

Appellant did not collect any tax from any passenger transported to or from the airports. Because of *Royce vs. Squire*, 168 F. 2d 250, appellant knew that it could never have a judicial determination of whether its airport limousine service was operated on an established line if it collected taxes from passengers. Appellant steadfastly maintained it was not operating on an established line and steadfastly desired such judicial determination. Consequently appellant carefully avoided collecting such tax.

The holding of the lower court that the money paid to appellant by limousine passengers included the transportation tax is contrary to the undisputed facts of this case and is based solely on an inference which appellant respectfully submits is untenable.

The inference is supported by nothing except the use of a bus, an inapt remark by counsel, and a raise in the price of the fare 13 months and 21 days after the Deputy Commissioner wrote a letter to the appellant.

During the course of the trial, appellant's attorney pointed out that on one early morning emergency a bus was used. This was a single exception to the otherwise total use of seven passenger limousines. The Commissioner of Internal Revenue had assessed against the appellant transportation tax on account of all the trips (Finding 4; Tr. 43). In pointing out this one exception in the kind of vehicles used appellant's attorney said: ". . . I think we owe the tax on the \$24 worth of fares, or about \$4.00 on this that we have not got any right to get back under any circumstances because there is one bus among all these limousine waybills" (Tr. 81).

This one exception was seized upon by the lower court as indicating that appellant collected transportation taxes from all the passengers (Tr. 34). The opinion of this Court of Appeals states: ". . . appellant concedes that \$4 of transportation taxes were properly assessed, . . ." (Op. 7), and that the lower court observed ". . . the charges for rides on the bus was concededly not exempt from the transportation tax . . ." (Op. 7). No where has there been any concession that a tax was collected from any passenger on that bus or from any other passenger. Attorneys do not always speak with technical accuracy in the heat of a trial. All appellant's attorney meant was that appellant should have collected a tax of about \$4.00 (actually \$2.70) on account of the passengers (18 rather than 24) carried in the bus as it had a seating capacity of more than ten passengers. His inaccuracy in technical expression, however, should afford no basis for holding a tax was collected when the evidence clearly shows otherwise.

By a letter dated July 30, 1948, a Deputy Commissioner of Internal Revenue informed the appellant that it was the opinion of the Bureau that the limousines operated by appellant were operated on an established line within the meaning of the statute and regulations. August 21, 1949 (13 months and 21 days after the date of the letter) the fare was increased from 85¢ to \$1.00. Based on this letter, this raise in fare, the use of a bus on 1 emergency trip out of 800 trips coupled with counsel's inapt statement, the lower court erroneously inferred that appellant collected a transportation tax on this bus trip and on all of the 799 limousine trips. The appellant respectfully submits that the facts undisputably show that what the lower court inferred is not so, and that the basis of this inference requires careful re-examination by this Appellate Court.

If standing alone the facts mentioned in the foregoing paragraph might possibly give rise to the inference last mentioned, the inference is nevertheless clearly overcome by the uncontradicted evidence in this case. Resting as it is on no substantial base, the inference must give way to the actual facts.

The finding by the trial court that the appellant collected the transportation tax from its airline passengers and employees is in the nature of an ultimate finding of fact and as such is a conclusion from other facts and is subject to review free from the restraining impact of the so-called "clearly erroneous" rule applicable to ordinary findings of fact made by trial courts. *Philber Equipment Corp. vs. Commissioner*, USCA, 3rd C, 9/27/56, No. 11860, CCH Par. 9934.

No correlation can be drawn from the raise in fare and the Deputy Commissioner's letter. They are two entirely unrelated incidents separated by almost 14 months in time. Appellant never acquiesced in the interpretation set forth by the Deputy Commissioner in his letter; and in the opinion this Court recognized that appellant acted reasonably in contesting such interpretation (Op. 8). Furthermore, if any relationship had existed, it must follow that the tax would apply equally to fare charged airline employee passengers as well as to fares charged regular passengers, yet there was no increase in the amount charged employee passengers. It is not reasonable to assume that with respect to one class of passengers appellant collected a tax and that with respect to another class appellant did not collect the tax.

The facts disclose that the full amount of the fare collected by appellant was recorded on its books as revenue and included in its income for all purposes including the purpose of income tax. Income taxes were paid upon the full fares collected. No amount was set aside, deducted, or recorded as a transportation tax. No part of the fares collected from airline passengers for limousine service were reported in appellant's transportation tax returns. (Appellant had a transportation tax account and collected and paid transportation taxes on another type of transportation furnished by it.)

The year here involved for income taxes is barred by the statute of limitations, yet according to the opinion, portions of the fares reported in appellant's income for income tax purposes are now determined to be actually

transportation taxes collected by appellant. Appellant's conduct shows that it did not intend to and did not collect such tax.

This Court's statement with respect of the penalty finding of the trial court applies with equal vigor to the issue of whether appellant collected the tax. Appellant's attorneys advised it that its transportation service was not subject to the tax and that it did not have to collect the tax. Appellant heeded this advise and did not collect any tax. The negotiations and litigation over the years referred to by this Court in its opinion concerned the question of whether or not appellant should collect the tax. They did not involve the question of whether or not appellant should pay a tax if a tax were collected. That issue had been decided in the *Royce v. Squire*, supra, and both appellant and its counsel knew this.

The *Royce* case was decided upon facts not present in this case. This was clearly illustrated at pages 50 and 51 of Appellant's Brief and pages 15 through 23 of Appellant's Reply Brief. A review of the decision in the *Royce* case shows the basic and material distinctions between the two cases. The *Royce* case was decided by this Court solely on the basis of the facts therein set forth, and furnishes no precedent in the case at bar.

In the *Royce* case each increase charged by the limousine company followed immediately upon a tax rate increase and was in almost the exact amount of the tax increase. Prior to October 10, 1941, the limousine company in the *Royce* case collected a fare of 75¢. That day the tax at 5% was imposed, and the same day the

charge to the passenger was raised to 80¢. November 1, 1942 the tax rate was raised to 10% or an increase of 5%, and on the same day the charge was raised exactly 5% to 84¢. April 1, 1944 the tax was increased another 5% to 15%, and on the same day the charge was increased from 85¢ to 90¢. During this period said limousine company billed the airlines for a fare of 75¢ for employees plus the appropriate tax (73 F. Supp. at 513). There was nothing like this in the case at bar. The raise in fare in the instant case on August 21, 1949 was simply to take care of increased costs of operations and had no relation to the tax.

In the *Royce* case the limousine driver specifically informed the passengers that a part of their fare was federal transportation tax. That was not so in appellant's operation. Neither the appellant nor its agents ever said the charge included a tax. In the *Royce* case the limousine company segregated the fares and taxes on its books as separate items. That was not so in appellant's operation. In the *Royce* case, the plaintiffs reported in their transportation tax returns the monthly total of taxes collected for their limousine service as shown by its books. That was not so in appellant's case. In the *Royce* case, the plaintiffs did not treat the full amount collected from the passengers as revenue. They reported in their income tax returns as revenue or income only that portion of the fares not set aside as a tax. That was not so in appellant's case where appellant reported as income and paid income taxes based upon the full amount of charge to each passenger. The charge was all fare.

We respectfully submit that the facts in this case give rise to only one inference and that is that appellant did not collect any tax from its airport passengers.

MISCELLANEOUS POINTS

1. The opinion (p. 6) states that Congressional approval of the former regulation gives such regulation the force of law. The "former regulation" appears to be the regulation made under the Revenue Act of 1917. If that is the regulation referred to, we have been unable to find Congressional approval of that regulation, and even if the Congress had approved it, we respectfully submit that such approval would have no bearing upon the case at bar.

2. It is also respectfully submitted that this Appellate Court misapprehended the doctrine of "administrative construction." As shown by *Wilmette Park Dist. v. Campbell*, 338 U.S. 411, and *Crane v. Commissioner*, 331 U.S. 1, cited in the opinion, the doctrine of administrative construction is based upon the repeated reenactment of relevant statutory language without change after the issuance of a regulation interpretive of that language. There never has been a reenactment of that provision of Section 3469 (a) of the Revenue Code of 1939 that employs the term "operated on an established line." The changes in Section 3469 (a) referred to by the court all relate to rates except as follows: The 1949 change added a sentence concerning a port in Newfoundland without reenacting any prior provision. The 1950 change ex-

panded the coverage of the section so as to include certain travel outside the United States without reenacting any prior provision. The 1951 change struck out the 1949 addition and inserted in its place provisions about stops at various ports followed by a substantial reenactment of what had been added in 1949, but again without reenacting any other provision of the section. In view of these facts it is respectfully submitted that it is erroneous to regard Regulations 42, Section 130.58 as either being a controlling force or as having Congressional approval so as to give it the force of law.

3. At page 6 of the opinion it is said: "Congressional action was taken with knowledge of the definition given by the Regulations." As authority for this, the cases of *Mass. Mutual Life Ins. Co. v. U. S.*, 288 U.S. 269, *Helvering v. Reynolds Co.*, 306 U.S. 110, and *Crane v. Commissioner*, *supra*, are cited. It is respectfully submitted that these cases do not support the statement. Whatever may have been the knowledge of the Congress about the regulations mentioned in those decisions, it does not follow that the Congress knew of or considered Regulations 42, Section 130.58 when it made the changes referred to in the immediately preceding paragraph.

4. The opinion (p. 6) states that "Section 3471 (a) of the Revenue Code of 1939 provides that a claim for refund of transportation taxes must be based on an erroneous collection, . . ." A reading of the entire section shows that the "collection" referred to is a collection of the transportation tax from passengers by the person claiming the refund, and not the collection from

such person by the Director of Internal Revenue. It is respectfully submitted that this section has no application to the case at bar as the appellant did not collect any transportation tax from any passenger. Sections 3770 (a) (1) and 3772 (a) (1) IRC 1939, apply in this case. These sections authorize a refund of taxes erroneously assessed or collected from a taxpayer by the Director of Internal Revenue. Please see Appellant's Reply Brief pages 18 and 19.

CONCLUSION

It is also respectfully submitted that upon rehearing counsel will be able to assist this Court better to examine and understand the record of this case, and that a rehearing should result in a revision of this Honorable Court's decision and a reversal of those parts of the decision holding:

- (a) that appellant's vehicles were being "operated on an established line," and
- (b) that appellant collected transportation taxes from airport passengers.

And, it is further respectfully submitted that a miscarriage of justice will occur if this case is not reversed on said points.

WHEREFORE, the appellant respectfully prays that this petition for a rehearing be granted; and that this Honorable Court exercise its power to determine and that it determine that appellant did not operate its limousines "on an established line" within the meaning of

Section 3469 (a) IRC 1939, and that no portion of the fare charged by appellant to its limousine passengers or the money collected by appellant from its limousine passengers constituted transportation tax; and

Appellant also prays that this case be reheard en banc; and that the decision of the District Court be reversed in its entirety.

Respectfully submitted,

JACOB, JONES & BROWN,
RANDALL S. JONES,
MORRIS J. GALEN,

522 Public Service Building,
Portland 4, Oregon,

Attorneys for Appellant-Petitioner.

I hereby certify that in my judgment, as counsel herein, the foregoing petition is well founded in law and it is not interposed for the purposes of delay.

RANDALL S. JONES,

Of Counsel for Appellant-Petitioner.



No. 14981

United States
Court of Appeals
for the Ninth Circuit

H. R. OSLUND,

Appellant,

vs.

STATE FARM MUTUAL AUTOMOBILE IN-
SURANCE CO., a corporation,

Appellee.

Transcript of Record

Appeal from the United States District Court for the
District of Oregon

FILED

MAR 20 1956

PAUL P. O'BRIEN, CLERK



No. 14981

United States
Court of Appeals
for the Ninth Circuit

H. R. OSLUND,

Appellant,

vs.

STATE FARM MUTUAL AUTOMOBILE IN-
SURANCE CO., a corporation,

Appellee.

Transcript of Record

Appeal from the United States District Court for the
District of Oregon

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NAMES

GARY

JAMES

...

...

MAGUIRE

W. G. ...

...

Port...

...

VERBIA

...

CHAS...

...

...



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JAMES AND JOHN ...

GARDNER & ...

JAMES ...

Company ...

Highway ...

MACHINERY ...

WALTER ...

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In the District Court of the United States for the
District of Oregon

Civil No. 7818

H. R. OSLUND,

Plaintiff,

vs.

STATE FARM MUTUAL AUTOMOBILE IN-
SURANCE CO., Defendant.

PRE-TRIAL ORDER

Nature of Proceedings

This is an action by plaintiff upon a policy of automobile insurance, by a judgment creditor of A. L. Brock, whom plaintiff contends and defendant denies is insured under said policy.

Agreed Facts

1. At all times herein mentioned plaintiff was and now is a resident and citizen of the State of Oregon, and defendant was and now is a corporation incorporated under the laws of the State of Illinois and doing business within the State of Oregon.

2. The amount in controversy herein, being the amount claimed by the plaintiff and denied by the defendant, exceeds the sum of \$3,000 exclusive of interest and costs.

3. Prior to and within one year from the 22nd day of May, 1953, the defendant in consideration of the premium paid to it by Robert H. Lafky, made, executed and delivered to Robert H. Lafky, a cer-

tain automobile policy of insurance wherein said Robert H. Lafky was the named insured, and certain other persons were additional insureds when operating a certain 1948 Chrysler convertible bearing Oregon License No. 475-830, and under the terms of which policy defendant agreed to pay in behalf of said insureds all sums which the insureds should become legally obligated to pay as damages for bodily injuries within the terms of said policy of said insureds accidentally sustained on account of any accident due to the ownership, maintenance or use of the insured automobile, not to exceed the sum of \$10,000.00. Said insurance policy remained in full force and effect at all times mentioned herein.

4. On or about the 22nd day of May, 1953, while one A. L. Brock was driving the automobile above described on a public road in Washington County, Oregon, he collided with a certain Chevrolet pickup automobile, being driven and operated by the plaintiff, and as a direct and proximate result of said collision, the plaintiff suffered injuries to his person, and notice of said accident was given to said defendant herein by the named insured, and the defendant had knowledge of the same.

5. On the 22nd day of June, 1953, H. R. Oslund commenced an action in the Circuit Court of the State of Oregon for Washington County against A. L. Brock in which he made claim for damages caused by the negligence of A. L. Brock, which said action resulted in a verdict and judgment in favor of the plaintiff and against A. L. Brock in the sum

of \$19,685 together with costs and disbursements, and said judgment has never been appealed from and is a final judgment in said Court and cause.

6. No part of said judgment has been satisfied except for payment in the amount of \$5,000 by the Loyalty Group Insurance Company after trial by jury on the merits in an action by plaintiff against said Loyalty Group Insurance Company on its policy of insurance, which resulted in a verdict and judgment against said company for the sum of \$5,000.00.

7. The defendant has refused to satisfy said judgment and the same remains unsatisfied to the extent of \$14,685.00.

Plaintiff's Contentions

1. A. L. Brock was driving said vehicle at the time of the accident with the permission of the named insured.

2. Defendant had notice of the accident between the vehicle insured by defendant and that driven by Oslund and denied coverage under its policy.

3. Defendant had notice of the pendency of the action in Washington County by H. R. Oslund against A. L. Brock and failed and refused to defend said action, although the policy of insurance issued by defendant included any person while using the automobile owned by Robert Lafky, provided the use of the automobile was with the permission of Robert Lafky.

4. Defendant investigated the accident between the vehicle insured by defendant and that driven by Oslund.

5. Defendant denied coverage under its policy on the ground that the accident arose out of the operation of an automobile repair shop.

6. Robert Lafky and A. L. Brock performed, observed and complied with all the provisions of said insurance policy required to be performed by them under the circumstances.

7. A. L. Brock was represented and defended in the Washington County action brought by H. R. Oslund, by competent counsel having the approval of the defendant and the same defenses were raised by said counsel as would have been raised by defendant.

8. More than six months has passed since the defendant had due proof of loss from said accident.

9. The sum of \$5,000 is a reasonable sum to be allowed to plaintiff as and for attorney's fees herein.

10. Plaintiff is entitled to interest at the rate of 6% per annum on the sum of \$10,000 from the 27th day of February, 1954, until such amount is paid.

Defendant's Contentions

1. That A. L. Brock had no permission to use said automobile except in the course of his business as a garage mechanic and operator.

2. That A. L. Brock was using said automobile at

the time of said collision in the course of his business as a garage operator.

3. That no action against this defendant lies herein until or unless as a condition precedent to the bringing thereof, A. L. Brock or his representative did forward every demand, notice, summons, or other process received by him or his representative to this defendant; and that such was not done.

4. That this defendant never received notice of the pendency of the action brought by Oslund against Brock until the time of trial thereof, and was not given an opportunity to defend the same or to compromise or settle said claim.

5. That A. L. Brock failed, after said accident, to cooperate with this defendant by giving to this defendant all information concerning said accident or the circumstances surrounding his possession of said automobile belonging to Robert Lafky, but that instead said Brock was at all times after said accident represented by counsel and dealt at arms length with this defendant.

6. That at no time did A. L. Brock or any one on his behalf forward to the defendant, or any of its representatives, any demand, notice, summons or other process received by him or his representative.

7. That the insurance above referred to is and was in all material respects identical with the sample policy form, a copy of which is attached hereto and by this reference made a part hereof as though the same are fully set forth herein at this point.

Issues

1. Was A. L. Brock using the automobile of Robert H. Lafky with the permission of said Robert Lafky?

2. Did the accident between the automobile of Robert H. Lafky and that driven by H. R. Oslund arise out of his use thereof in the course of the operation of an automobile repair shop?

3. Did defendant have notice of the claim of H. R. Oslund?

4. Did defendant investigate the accident involved?

5. Did Brock cooperate with the defendant in investigation?

6. Did defendant deny coverage under its policy, and if so, on what ground?

7. Was Brock represented by competent counsel having the approval of defendant, and were the same defenses raised by Brock's counsel as would have been raised by defendants?

8. Did Brock submit to Company all demands, notices, summons or other process received by him or his representative?

9. Was A. L. Brock required to give further notice or make further demand upon defendant under its policy after defendant's denial of coverage, if any?

10. Did defendant have knowledge of the pendency of the Washington County action?

11. Has defendant refused to make payment under its policy of insurance for a period of six

months since notice was given of the claim of H. R. Oslund?

12. Is plaintiff entitled to any sum for attorney's fees and if so, what amount is reasonable?

13. Is plaintiff entitled to interest and from what date?

Exhibits

The following is a schedule of the exhibits marked by the parties for identification; all objections as to the competency, relevancy and materiality are reserved to time of trial. Further identification is hereby waived of the exhibits.

Plaintiff's Exhibits:

1. Answer A. L. Brock personal injury case.
2. Answer A. L. Brock prepared by defendant's counsel in property damage case.
3. Complaint Oslund vs. State Farm Mutual Automobile Insurance Company, state court.
4. Deposition Ed Engel, state court.
5. Deposition Frank O'Connor, state court.
6. Copy of insurance policy issued to Robert Lafky.
7. Statement of A. L. Brock.
8. Accident report of Robert Lafky.
9. Deposition of Mervin Brink.
10. Deposition of Robert Lafky.
11. Report of Edward Engel dated Aug. 3, 1953.
12. Report of Edward Engel dated Nov. 2, 1953.
13. Report of Edward Engel dated June 10, 1953.
14. Report of Edward Engel dated Sept. 25, 1953.

15. Defendant's file cover.
16. Defendant's case record card.
17. Letter of Gardner 6-1-53.

Defendant's Exhibits:

1. Copy of insurance policy issued to Robert Lafky.
2. Statement of A. L. Brock.
3. Accident report of Robert Lafky.
4. Deposition of Mervin Brink.
5. Deposition of Robert Lafky.
6. Deposition of James K. Gardner.
7. Report of Robert Lafky.

It Is Hereby Ordered that the foregoing is the Pre-Trial Order in the above entitled cause, that it supersedes the pleadings, which are hereby amended to conform hereto, and that said pre-trial order shall not be amended until trial except by consent or by order of the court to prevent manifest injustice.

Dated this 27 day of September, 1955.

/s/ WILLIAM G. EAST

The foregoing form of Pre-Trial Order is hereby approved:

/s/ WALTER J. COSGRAVE,
Of Attorneys for Plaintiff

/s/ DUANE VERGEER,
Of Attorneys for Defendant

[Endorsed]: Filed September 27, 1955.

[Title of District Court and Cause.]

PLAINTIFF'S REQUESTED INSTRUCTIONS

Comes now the plaintiff and respectfully requests the court to instruct the jury as follows:

I.

Since the insurance policy in this case was prepared by the defendant State Farm Insurance Company, its terms are to be construed most strongly against said defendant and in favor of the plaintiff.

* * * * *

IX.

I instruct you that since the defendant, State Farm Insurance Company, after investigating the accident, denied that its policy of insurance covered A. L. Brock, on the ground that the accident arose out of the operation of a garage, this denial was a waiver of the policy requirements as to notice of suit or the forwarding of any summons or other process and you are not to consider as a defense any lack of delivery of notice of suit or failure to deliver the summons and complaint.

* * * * *

[Title of District Court and Cause.]

DEFENDANT'S REQUESTED
INSTRUCTIONS

Comes now the Defendant State Farm Mutual Automobile Insurance Company and respectfully requests the Court to submit to the jury the Special Interrogatory attached hereto, and to instruct the jury as follows:

* * * * *

Defendant's Requested Instruction No. 1

One of the issues raised by plaintiffs in this cause is raised upon the proposition that the Insurance Company, at a time prior to the filing of the action by Mr. Oslund against Mr. Brock, denied coverage to Mr. Brock, and that for this reason Mr. Brock was excused from tendering to the State Farm Mutual the defense of the action brought against him by Mr. Oslund. Under the insurance contract upon which plaintiff seeks to collect, any person claiming to be insured must prove before he can maintain an action against the Company that he has tendered to the Company every claim, demand and notice, including any summons or complaint which he has received or which is served upon him. Plaintiff can not be allowed to recover in this case unless he shows that either Mr. Brock performed the above requirement, which it is admitted that he did not, or that he was excused from such performance by reason of conduct on the part of the defendant herein. If Mr. Brock wanted to avail himself of

Mr. Oslund's insurance policy, it was necessary for him to comply with all the requirements of that policy, unless excused therefrom by conduct on the part of the company.

[Title of District Court and Cause.]

VERDICT

We, the jury, duly impanelled and sworn to try the above-entitled cause find our verdict in favor of the defendant and against the plaintiff.

Dated this 28 day of September, 1955.

/s/ CARL H. VEATCH,
Foreman

[Endorsed]: Filed September 28, 1955.

[Title of District Court and Cause.]

SPECIAL FINDINGS

We, the jury, duly impanelled and sworn to try the above-entitled cause, answer the following interrogatory as appears below:

Was A. L. Brock, at the time of the accident, using Mr. Robert Lafky's automobile in the course of his business as a garage mechanic: Yes.

/s/ CARL H. VEATCH,
Foreman

[Endorsed]: Filed September 28, 1955.

In the District Court of the United States for the
District of Oregon

Civil No. 7818

H. R. OSLUND,

Plaintiff,

vs.

STATE FARM MUTUAL AUTOMOBILE IN-
SURANCE COMPANY, Defendant.

JUDGMENT

The above entitled cause having come on for trial before the Honorable William East, Judge of the entitled Court, on the 27th day of September, 1955; plaintiff appeared in person and by Walter Cosgrave and James Gardner, of counsel for plaintiff, and the defendant appeared by one of its attorneys, Duane Vergeer; a jury was duly impanelled and sworn to hear the cause, after which evidence was heard on behalf of the plaintiff and the defendant. At the conclusion of the evidence the cause was argued to the jury by respective counsel, after which the Court instructed the jury on all matters pertaining to the issues and the law applicable thereto; whereafter the jury retired to deliberate upon its verdict, and on the 28th day of September, 1955, returned its Special Findings and Verdict into Court in the following terms, to-wit:

(Title and Venue Omitted) "Special Findings: We, the jury, duly empanelled and sworn to try the above entitled cause, answer the following interrogatory as appears below:

Was A. L. Brock, at the time of the accident, using Mr. Robert Lafky's automobile in the course of his business as a garage mechanic: Yes.

/s/ Carl H. Veatch, Foreman"

(Title and Venue Omitted) "Verdict: We, the jury, duly impanelled and sworn to try the above entitled cause find our verdict in favor of the defendant and against the plaintiff.

Dated this 28th day of September, 1955.

/s/ Carl H. Veatch, Foreman"

and the defendant having moved for Judgment upon said finding, and verdict, and the Court being advised in the premises, now, therefore,

It Is Hereby Ordered and Adjudged that plaintiff's Complaint herein be and the same is hereby dismissed, and that plaintiff take nothing thereby, and that the defendant be and is hereby awarded judgment against the plaintiff for the defendant's costs and disbursements incurred herein.

Dated this 28th day of September, 1955.

/s/ WILLIAM G. EAST,
Judge

[Endorsed]: Filed September 30, 1955.

[Title of District Court and Cause.]

MOTION FOR NEW TRIAL

Comes now the plaintiff, by and through his attorneys of record, James K. Gardner and Walter J. Cosgrave, and respectfully moves the Court for an order setting aside the verdict of the jury herein and the judgment based thereon and granting the plaintiff a new trial. That this motion is made upon the following grounds, to-wit:

1. That the general verdict for the defendant and against the plaintiff and the special interrogatory are against the clear weight of the evidence in that it conclusively appears from the evidence that the defendant knew of the suit and denied coverage; and that there was no substantial evidence that the accident arose out of the operation of a garage.

2. There was no substantial evidence that the accident arose out of the operation of a garage, the accident report having been admitted only for purposes of impeachment and not as substantive evidence and the Court should, therefore, have withdrawn such defense from the consideration of the jury.

3. The special interrogatory to the jury presented an exclusion which was not contained in defendant's policy of insurance. The language of the policy is:

“to any person operating an automobile repair shop, public garage, * * * with respect to

any accident arising out of the operation thereof.”

The question submitted was:

“Was A. L. Brock, at the time of the accident, using Mr. Robert Lafky’s automobile in the course of his business as a garage mechanic:
Yes.

.....
Foreman”

4. The instruction of the Court to the effect that the defendant must have “definitely denied” coverage and that a mere statement of opinion on the part of a representative of the insurance company was not enough to justify a finding that the company had refused coverage, was highly prejudicial to the plaintiff and did not correctly state the law.

5. Plaintiff’s requested instruction Number one should have been given since it correctly stated the law and was material to the exclusion defense raised by defendant.

6. Plaintiff’s requested instruction Number VIII should have been given since it correctly stated the law and was material to the exclusion defense raised by defendant.

7. That the defense counsel made the following statement to the jury, to-wit:

“Mr. Brock was keenly aware of the fact that he was a garage operator and that he had no longer any garage liability coverage. The record shows that his policy had lapsed and he knew about it

and he also knew that a policy such as this would not be applicable to him. Undoubtedly Mr. Brink had informed him thoroughly on the subject but that is outside of the record. Now there was a discussion between Mr. Engel and Mr. Brink——” (Objection)

That said statement was false and there was no evidence in the case to sustain the statement. That it imputed bad faith to Mr. Brock and implied that he was attempting to get coverage which he, in fact, knew he did not have. That the statement was prejudicial, and prevented the plaintiff from obtaining a fair trial.

8. That defense counsel made the following statement to the jury:

“I want to stress the point that Mr. Brock, at no time was taken advantage of; that if he wanted to perform under the policy, if he wanted to claim the privilege of the policy that was issued to Mr. Oslund—I mean to Mr. Lafky, he could do it, but he decided against doing it and now Mr. Oslund wants to come in and collect under the policy issued to Mr. Lafky for something that Mr. Brock did and now we are faced with trying to prove to you what was going on in Mr. Brock’s mind when he got into the car that day.”

That the statement was prejudicial to the plaintiff in that it suggested to the jury that Oslund should not be allowed to recover because Brock was not the owner of the policy, whereas it had been agreed that Brock was an additional assured, the question of permission having been admitted.

Dated, at Portland, Oregon, this 7th day of October, 1955.

/s/ WALTER J. COSGRAVE,
Of Attorneys for Plaintiff

To: Defendant State Farm Mutual Automobile Insurance Company and Duane Vergeer, its attorney

Please take notice that the plaintiff will bring the above motion on for hearing on the 12th day of October, 1955, at 10:00 a.m. or as soon thereafter as counsel may be heard.

/s/ WALTER J. COSGRAVE,
Of Attorneys for Plaintiff

[Endorsed]: Filed Oct. 7, 1955.

[Title of District Court and Cause.]

ORDER

This matter coming on before the Court on the 17th day of October, 1955, plaintiff appearing by James K. Gardner, of attorneys for plaintiff and the defendant appearing by Duane Vergeer, of attorneys for defendant, and the Court having heard argument upon plaintiff's Motion for a New Trial, and the Court being of the opinion that plaintiff's Motion is not well taken, and that plaintiff did in every respect have a fair and proper trial, and that no error in any way materially affecting the

rights of the parties is contained in the record, or took place during the trial, now, therefore,

It is hereby ordered that plaintiff's Motion for a New Trial be and the same is hereby denied.

/s/ WILLIAM G. EAST,
Judge

[Endorsed]: Filed Oct. 25, 1955.

[Title of District Court and Cause.]

NOTICE OF APPEAL

To: State Farm Mutual Automobile Insurance Company, a corporation, and Duane Vergeer, its attorney.

You and each of you will please take notice that H. R. Oslund, plaintiff in the above entitled case, hereby appeals to the United States Circuit Court of Appeals for the Ninth Circuit from the final judgment entered in this action on the 28th day of September, 1955.

/s/ JAMES K. GARDNER,
Of Attorneys for Plaintiff

[Endorsed]: Filed Nov. 14, 1955.

[Title of District Court and Cause.]

STATEMENT OF POINTS UPON WHICH
APPELLANT WILL RELY ON APPEAL

Comes now the appellant and presents a statement of points upon which he intends to rely in his appeal of the above entitled cause to the United States Court of Appeals for the Ninth Circuit.

1. That the general verdict for the defendant and against the plaintiff and the special interrogatory are against the clear weight of the evidence in that it conclusively appears from the evidence that the defendant knew of the suit and denied coverage; and that there was no substantial evidence that the accident arose out of the operation of a garage.

2. That the Court erred in admitting defendant's exhibit 7 over the objection of the plaintiff.

3. That there was no substantial evidence that the accident arose out of the operation of a garage and the defendant's exhibit 7 was not substantial evidence, hence the Court erred in failing to withdraw said defense from the consideration of the Jury.

4. That the Court erred in giving defendant's instruction to the effect that the defendant must have "definitely denied" coverage and that a mere statement of opinion on the part of a representative of the insurance company was not enough to justify a finding that the company had refused cov-

erage, was highly prejudicial to the plaintiff and did not correctly state the law.

5. That the court erred in failing to give Plaintiff's requested instruction No. 1. That it clearly stated the law and was material to the exclusion defense raised by the defendant and the Court's failure to give it, prejudiced the plaintiff.

6. That the defense counsel made the following statement to the jury, to-wit:

"Mr. Brock was keenly aware of the fact that he was a garage operator and that he had no longer any garage liability coverage. The record shows that his policy had lapsed and he knew about it and he also knew that a policy such as this would not be applicable to him. Undoubtedly Mr. Brink had informed him thoroughly on the subject but that is outside of the record. Now there was a discussion between Mr. Engel and Mr. Brink——" (Objection)

That said statement was false and there was no evidence in the case to sustain the statement. That it imputed bad faith to Mr. Brock and implied that he was attempting to get coverage which he, in fact, knew he did not have. That the statement was prejudicial, and prevented the plaintiff from obtaining a fair trial.

7. The court erred in failing to sustain plaintiff's objection to defense counsel's misstatement and the court erred in failing to instruct the jury to disregard it.

Dated November 18th, 1955, at Hillsboro, Oregon.

GARDNER AND REEDER
MAGUIRE, SHIELDS, MORRISON
& BAILEY

/s/ By JAMES K. GARDNER,
Attorneys for Appellant.

Affidavit of Service by Mail attached.

[Endorsed]: Filed Nov. 22, 1955.

[Title of District Court and Cause.]

CERTIFICATE OF THE CLERK

United States of America,
District of Oregon—ss:

I, R. DeMott, Clerk of the United States District Court for the District of Oregon, do hereby certify that the foregoing documents consisting of Pre-trial order; Plaintiff's requested instructions; Defendant's requested instructions; Verdict; Special findings; Judgment; Plaintiff's motion for new trial; Order denying motion for new trial; Notice of appeal; Bond for costs on appeal; Designation of contents of record on appeal; Statement of points upon which appellant will rely on appeal; Appellee-Defendant's supplemental designation of contents of record on appeal; Stipulation to strike item from designation; Order to forward exhibits to Court of Appeals and Transcript of docket en-

tries, constitute the record on appeal from a judgment of said court in a cause therein numbered Civil 7818, in which H. R. Oslund is the plaintiff and appellant and State Farm Mutual Automobile Insurance Co. is the defendant and appellee; that the said record has been prepared by me in accordance with the designation of contents of record on appeal filed by the appellant and the appellee, and in accordance with the rules of this court.

I further certify that there is enclosed the reporter's transcript of testimony in three parts, together with exhibits 6, 7, 11, 12, 13, 14, and 17.

I further certify that the cost of filing the notice of appeal, \$5.00 has been paid by the appellant.

In testimony whereof I have hereunto set my hand and affixed the seal of said court in Portland, in said District, this 19th day of December, 1955.

[Seal]

R. DE MOTT,
Clerk.

/s/ By F. L. BUCK,
Chief Deputy

[Title of District Court and Cause.]

PARTIAL TRANSCRIPT OF PROCEEDINGS

Portland, Oregon, September 28, 1955

Before: Honorable William G. East, District Judge.

ARGUMENT OF DUANE VERGEER

* * * * *

I am going to talk first of all about Mr. Engel. Mr. Engel's background and experience has been made clear to you. He is an employee of the company, there is no issue on that question. Mr. Engel is an adjuster; he had had about a year's experience at the time this thing came along. Now, Mr. Engel had taken a statement from Mr. Brock. He had also obtained a report from Mr. Lafky and that report is in evidence and parts of the statement were made known to you and I will have reference to them later. But, he then went to see Mr. Brink and, according to the deposition as Mr. Brink recalled it, Mr. Engel was in talking to his partner about something and he got to kidding him about this Brock accident. Now, mind you Mr. Brink who is an experienced attorney and you saw him here was then representing Mr. Brock and we don't need to concern ourselves with the idea that Mr. Brock was being taken advantage of in any way whatsoever. Mr. Brock had already seen his attorney before Mr. Engel saw him and Mr. Engel then proceeded to see Mr. Brink after that and also

Mr. Brock after that. It's something to keep in mind because it may have colored his thinking a little bit. Mr. Brock was keenly aware of the fact that he was a garage operator and that he had no longer any garage liability coverage. The record shows that his policy had lapsed and he knew about it and he also knew that a policy such as this would not be applicable to him. Undoubtedly Mr. Brink had informed him thoroughly on the subject but that's outside of the record. Now, then, there was a discussion between Mr. Engel and Mr. Brink—

Mr. Gardner: Your Honor.

The Court: Just a moment.

Mr. Gardner: I don't think there is any evidence in this case about any policy having lapsed.

Mr. Vergeer: I believe the matter was mentioned by a witness, Your Honor.

The Court: May I have the statement of counsel read?

(The portion of Mr. Vergeer's previous statement, the sentence starting "The record shows that his policy had lapsed . . ." and down to the portion where Mr. Vergeer was interrupted by Mr. Gardner's objection was read.)

The Court: There was some evidence in the case to the effect that Mr. Brock had insurance of his own and counsel can draw such inferences from that evidence as they desire. The jury understands

that counsel is merely drawing his inference and analysis of the evidence.

* * * * *

[Endorsed]: Filed October 17, 1955.

[Title of District Court and Cause.]

PARTIAL TRANSCRIPT OF PROCEEDINGS

Portland, Oregon, September 27th and 28th, 1955

Before: Honorable William G. East, District Judge.

Mr. Gardner: I would like to call Mr. Brock.

A. L. BROCK

produced as a witness on behalf of the plaintiff, being first duly sworn, was examined, and testified as follows:

Direct Examination

By Mr. Gardner:

Q. Would you state your name for the Court and jury again? A. A. L. Brock.

Q. And, where do you live, Mr. Brock?

A. At Hillsboro.

Q. And, where are you presently living in Hillsboro? A. At the present time?

Q. Yes.

A. I am living a half a mile east of Hillsboro.

Q. And, could you state whether or not you are living next to your garage at the present time?

(Testimony of A. L. Brock.)

A. No, sir—I didn't quite hear you on that.

Q. Could you tell us whether or not you are living next to your garage at the present time?

A. At the present time, yes.

Q. And, where is your garage located?

A. About a half a mile east of Hillsboro on Highway 6.

Q. I wonder if the jury can hear him. Would you talk just a little louder, Mr. Brock, and address your answers right to the jury? Could you tell us whether or not this Highway 6 is the main highway between Beaverton and Hillsboro?

A. It is; yes.

Q. And, which side of the road is your garage on? A. Right on the north side.

Q. And, how long have you operated that garage, Mr. Brock?

A. I moved out there in the spring of '50.

Q. And, have you operated the same garage there since 1950? A. Yes, sir.

Q. How large a garage is it?

A. Just two stall.

Q. And, you normally employ any help in the operation of it?

A. Oh, from time to time, yes.

Q. And, is that an occasional person that helps you out from time to time? A. Yes.

Q. Now, could you state whether or not you had anyone working for you on May 22, 1953?

A. No, I didn't. I did not.

(Testimony of A. L. Brock.)

Q. And, where were you living on May 22, 1953?

A. 4th and Grant Street, Hillsboro.

Q. And, you were operating the garage that day?

A. Yes.

Q. Do you know a Robert H. Lafky?

A. I do, yes.

Q. And, approximately how long have you known Mr. Lafky?

A. I believe since the fall of '51.

Q. And, how did you happen to become acquainted with him?

A. Well, he was a tenant in my house at one time.

Q. And, that was for what period of time?

A. Oh, I would say eight or ten months.

Q. During that period of time did you form quite a close personal attachment for Mr. Lafky?

A. We did.

Mr. Vergeer: I object to the form of the question.

The Court: I believe the question calls purely for a conclusion. Have the witness explain what the relationship was.

Mr. Gardner: Thank you, Your Honor.

Q. Would you explain to the jury, please, just what your relationship was during the time Mr. Lafky lived in the house you rented to him?

A. Well, we became very good friends. We visited back and forth considerably and we were out together a few times.

Q. Well, now, during this period of time that

(Testimony of A. L. Brock.)

Mr. Lafky lived in your house where were you living?

A. In a trailer house in the back yard.

Q. Was that in the back yard of the house that he was living in? A. It was, yes.

Q. Would you give the jury some idea of the distance in feet as to where your front door and his back door were from each other?

A. Oh, probably 20 feet.

Q. Yes. During that time did you have occasion to take some meals with Mr. Lafky and his family?

A. I did.

Q. And, during that time did you ever have occasion to exchange automobiles?

A. We had on occasions, yes.

Q. Now, during the time that Mr. Lafky was renting from you did you have occasion to keep his car repaired? A. Yes, I did.

Q. And, at times previous to the accident could you state whether or not you had used his car for personal errands when it was left at your shop?

A. I had, yes.

Q. Now, recalling back on the 22nd of May, 1953, I believe that that was a Friday, did you receive possession of Mr. Lafky's car?

A. Yes, I did.

Q. And, about what time of day was it that you obtained possession of it?

A. It was about 9:00 o'clock in the morning.

Q. And, will you tell the jury just how that happened that day?

(Testimony of A. L. Brock.)

A. Well, his car needed a minor tune up which I had given his car several times and so he drove the car out there in the morning, I took him back uptown, and drove the car back to the shop.

Q. And, about what time was it that you returned back to the shop from Hillsboro?

A. Oh, it was shortly after 9:00 o'clock.

Q. Did you do any work on his car?

A. Just minor tune up. It was a matter of checking the ignition, and so on; just a minor tune up.

Q. About how much time did you spend in repairing it?

A. Oh, probably not to exceed a half an hour.

Q. And, do you recall at what time you had the repairs completed?

A. Well, immediately after—immediately after I took the car back out there I completed the repairs and gave the car a road test and set it along in the parking lot out in front.

Q. And, about what time was it that you set it on the parking lot?

A. Oh, around 10:00 o'clock.

Q. And, then, what did you do?

A. Well, worked on other jobs.

Q. And, could you tell the jury what happened just previous to the accident that afternoon?

A. I don't quite understand what you're asking for.

Q. Well, did you have occasion to leave your shop at any time Friday, May 22, '53?

(Testimony of A. L. Brock.)

A. Yes. Yes, I did. I had an errand down the road and I wasn't busy in the shop at that time so I went on this errand.

Q. About what time was it that you decided to go on an errand?

A. Oh, it was some time after 2:00 o'clock in the afternoon.

Q. And, at that time was there anyone in the shop helping you? A. No.

Q. Would you tell the jury just what you did after you decided to go on the errand some time after 2:00 o'clock?

A. Well, I got in Mr. Lafky's car and drove down to this man's place which is near Witch Hazel. It's over—

Q. Do you recall the name of the man that you went to see?

A. Yes. His name was Thomison.

Q. And, what was your purpose, if any, in going down to see Mr. Thomison?

A. Well, I had been getting eggs from him for several years and I went down after a couple of dozen eggs.

Q. Do you recall what route or what road you took from your garage down to see Mr. Thomison?

A. Well, I drove from the garage down to the Minter Bridge Road and I crossed to the River Road and then east to Mr. Thomison's place.

Q. And how did you come back?

A. The same route.

Q. Now, as you approached the intersection of

(Testimony of A. L. Brock.)

Minter Bridge Road and Highway 6 what direction were you going? A. I was going north.

Q. And, where were you in reference to Hillsboro?

A. Well, the Minter Bridge Road, I should judge, is in the neighborhood of three-quarters of a mile east of the city limits.

Q. I see. And, where was your garage in reference to where you were on Minter Bridge Road and east boundaries of Hillsboro?

A. Probably a quarter of a mile west of this intersection.

Q. Well, am I to understand, then, that your garage was practically in line with you and the east boundaries of the City of Hillsboro?

A. That's right.

Q. Now, as you turned onto the Highway Number 6 could you tell us what direction you turned?

A. Well, I would be turning west onto the highway.

Q. And, what happened as you turned west?

A. Well, I started to turn west and saw Mr. Oslund and I made a stop.

Q. And, is that where the accident occurred then at that intersection?

A. That's where the accident occurred.

Q. Then, after the accident happened what, if anything, did you do with Mr. Lafky's car?

A. I called a tow truck and had it towed up to the shop.

Q. To what shop? A. My shop.

(Testimony of A. L. Brock.)

Mr. Gardner: I think that's all at this time.

Mr. Vergeer: If the Court please, does the Court have the exhibit consisting of the statement of A. L. Brock? It's numbered—

Mr. Cosgrave: No. That's the one we marked, Mr. Vergeer. You have the original of it, we have a Photostat.

Mr. Vergeer: All right. Then, I would like this marked as Defendant's Exhibit Number 2.

(Whereupon statement of A. L. Brock was marked Defendant's Exhibit 2 for identification.)

Cross Examination

By Mr. Vergeer:

Q. Mr. Brock, you testified just now that you did some work on the ignition on that car that morning? A. Yes, sir.

Q. And, that you then went out and road tested it? A. Yes, sir.

Q. And, that you then put it on the parking lot?
A. That's right.

Q. Is that right?

A. That's right.

Q. Is that what you did? A. Yes, sir.

Q. Do you recall Mr. Brock when your statement was taken in the course of a conversation between you and Mr. Clifford R. Waits, Court Reporter, and Mr. Ed Engel, on the 27th day of May, 1953, shortly after this accident about three or four or five days after the accident? Do you recall that?

A. Yes, I recall that.

(Testimony of A. L. Brock.)

Q. All right. Now, I will ask you, Mr. Brock, if at that time concerning this matter you weren't asked the following questions and made the following answers—page 4—“You had driven the car before”—referring to the Brock car—“I mean, the Lafky car? Oh, yes; this particular car, yes. Question: Do you normally make a practice of testing cars before——? Answer: Sometimes I do sometimes I do but in this case I didn't because all I did was tune up his ignition and then backed her out and set it out there for a couple of hours after I was through with it. And I had to go down and see this man and I locked up shop and drove down.” Now, having that to refresh your memory do you think you road tested that car between the time you tested the ignition and the time you went on this trip? A. I am of the opinion I did, yes.

Q. You think then that your statement made at this time on the 27th of May, 1953, was incorrect, is that so? You do not deny making this statement, do you?

A. No, I don't deny making the statement.

Q. All right. Now, do you recall an occasion when your deposition was taken in the case in the Circuit Court of the State of Oregon for the County of Washington in the case of Oslund against Brock, deposition of A. L. Brock, taken on September 5, 1953, at 11:00 o'clock a.m. in the Circuit Courtroom at Hillsboro, Oregon, before Judge R. Frank Peters and Mr. Gardner your attorney was present and Mervin W. Brink was present. Do you recall that?

(Testimony of A. L. Brock.)

A. I recall it.

Q. At that time were you asked the following questions and did you make the following answers concerning this point: "Question: On May 22, 1953, how did you happen to obtain possession of his car? Answer: Well, I had his car in in the morning and had changed spark plugs. Question: And—— Answer: Then I had set his car outside. I set his car outside and it sat there until that afternoon. Question: Now, did you bring his car in that morning? Answer: Yes, sir. Question: About what time did he come, in the morning? Yes. I won't say. I don't remember." Do you deny making that statement?

A. No.

Q. And, your present recollection, however, is that the car didn't set there until you took it on this trip but that you road tested it in between time?

A. It's my impression that I road tested the car when I backed out of the shop, that's the impression that I have.

Q. At this time?

A. I—it was—it was a minor tune up. There wasn't any job card made out on it so I haven't any reference on that particular job.

Q. The fact is, then, Mr. Brock, that you want this jury to understand now that you are not sure in your own mind whether you did that one way or the other, is that right?

A. I am positive in my own mind that I road tested the car when I backed out of the shop in the morning.

(Testimony of A. L. Brock.)

Q. And, that you were mistaken in each of these two prior occasions? A. Uh huh.

Q. Now, Mr. Brock, you were under oath when this second statement was made, weren't you?

A. That's right.

Q. Mr. Brock, do you normally consider road testing it part of your business when you tune up an automobile with ignition trouble? A. I do.

Q. As a matter of fact, until the car is driven at some speed you can't tell whether you have done a good job or not, isn't that right?

A. That's right.

Q. And, sometimes you have to drive a car very slowly to find out whether it's right or not?

A. Right.

Q. And, so, actually taking the car for a road trip is a necessary part of tuning it up?

A. Right.

Q. Now, your own car was on the lot that day, wasn't it; that afternoon? A. Yes.

Q. And, you say in your testimony that Mr. Oslund sometimes used your car prior to this occasion, is that right? A. That's right.

Q. And, that was——

Mr. Cosgrave: I think you have your names crossed again.

Mr. Vergeer: Pardon me. I am sorry—that Mr. Lafky used your car on occasions?

A. Right.

Q. And, that was, however, only when Mr.

(Testimony of A. L. Brock.)

Lafky's car was laid up for some reason, isn't that right?

A. I wouldn't—I wouldn't say that it was only when his car was laid up. He felt free to use my car at any time he wanted to. So I wouldn't say that that was only when his car was laid up.

Q. And, when you used his car you would ask his permission to use it, wouldn't you?

A. Oh, I'd say on occasion, yes.

Q. And, except of course if you had it at your garage and were working on it?

A. Well, I had taken his car from the house without his permission.

Q. You had? A. Yes.

Q. How often do you think you had done that?

A. Oh, I can recall of a couple of times when I did.

Q. You can recall a couple of times? Now, Mr. Brock, were you going to return this car to Mr. Lafky? A. In the evening, yes.

Q. And, at the time of the accident, as I understand it, you were on your way back to the shop?

A. Right.

Q. What kind of clothes were you wearing, Mr. Brock?

A. Well, I had pulled off my coveralls. I had on my ordinary pants and shirt.

Q. Yes. You had taken your coveralls off?

A. Right.

Q. And, didn't you at one time tell Mr. Engel when he came out on the occasion previously re-

(Testimony of A. L. Brock.)

ferred to that you were not going back to the shop that afternoon?

A. No, I didn't. I didn't make that statement.

Q. You didn't think you made such a statement? A. (Witness shakes head.)

Q. What time do you normally close your shop, Mr. Brock?

A. Oh, around 5:00 o'clock.

Q. Referring to page 8, Defendant's Exhibit Number 2, do you recall on the occasion when the Court Reporter was out with Mr. Engel you were asked these questions about this matter of whether you were going back to work and immediately prior thereto, these others: "Question: Do you return cars for your customers? Answer: Sometimes. Question: Do you pick up cars for your customers? Answer: Sometimes. Question: Do you consider that part of the normal occupation for a mechanic? Answer: In a way, yes. Question: That is part of the business? Answer: That is part of the business in a way. Question: You were actually carrying on your normal business pursuits at the time the accident occurred? Answer: No. I was through with my normal pursuits. As far as that is concerned I was through working for the day. I had pulled off my coveralls and washed up and was ready for home. Question: You were all cleaned up? Answer: Yes. Question: Had Mr. Lafky asked you to return the car to him? Answer: Yes." Now, were you asked those questions and did you make those answers on that occasion? A. Yes.

(Testimony of A. L. Brock.)

Q. And, so, at that time you were of the opinion that you weren't going to go back to work that day?

A. That's right.

Q. Does that in any way refresh your memory or recollection of this occasion?

A. If you will read some more of those questions that are there it kind of explains itself.

Q. Perhaps counsel for the plaintiff can find it. Well, I will read the entire balance of the deposition. It's only a very small affair.

A. I had—I can explain that. I had some other business to attend to. Operating the shop for myself I can quit any time I want to and so I had intended to tend to some other matters up at town but I hadn't locked the shop up at that time, no.

Q. Well, now, the fact this jury would like to know is whether you were going to go back to your shop or whether you were not going back to your shop?

A. I was going back to the shop, yes.

Q. You were? Do you recall when Mr. Engel asked you about what other business you were going to attend to—

A. Yes.

Q. —did you tell him it was none of his business?

A. Yes.

Mr. Vergeer: That's all.

The Court: Any redirect?

Mr. Gardner: No further questions.

The Court: That's all, sir, you may step down.

ROBERT H. LAFKY

produced as a witness on behalf of the plaintiff, being first duly sworn, was examined, and testified as follows:

Direct Examination

By Mr. Gardner:

Q. Your name is Robert H. Lafky?

A. Right.

Q. And, where do you live, Mr. Lafky?

A. Well, at present I have a mailing address in Salem. I am more or less a roving or traveling auditor for the State. My home is more or less wherever I hang my hat.

Q. And, what department of the State do you work for?

A. Industrial Accident Commission.

Q. And, at what time did you live in the City of Hillsboro?

A. From the 1st of October, '51, until the 1st of February, 1955.

Q. And, during that time did you know A. L. Brock? A. I did.

Q. On the 22nd of May, '53, do you recall what type of automobile you owned?

A. 1948 Chrysler convertible.

Q. And, did you carry any liability insurance on the automobile? A. I did.

Q. And, with whom did you carry that insurance? A. The State Farm Mutual.

Q. Now, can you tell the jury who had possession of your car on the 22nd of May, '53?

A. From some time in the fairly early morning

(Testimony of Robert H. Lafky.)

or middle of the morning until late afternoon it was in the possession of A. L. Brock.

Q. And, when did you first learn of the accident?

A. Some time in the afternoon of that day, I couldn't give you the exact time, when he came down to the place where I was staying and told me about it.

Q. I see. And, that was Mr. Brock informed you of the accident? . A. Yes.

Q. Now, when were you first contacted by your insurance adjuster?

A. Some time within just a very few days after that, to the best of my memory. I couldn't say just whether it was one or two days or a week, I am not positive.

Q. Now, Mr. Lafky, I wonder if you could give us your best recollection of the number of times you were contacted by the State Farm adjuster from the date of the accident up until February of 1954?

Mr. Vergeer: If the Court please, I don't see how this is a relevant inquiry. I don't know exactly what counsel expects to prove. It seems immaterial at this point.

The Court: Do you wish to bring out some conversations between the parties?

Mr. Gardner: Yes, Your Honor.

The Court: You may proceed.

Mr. Gardner: Q. Can you give us your best recollection of the number of times you talked to

(Testimony of Robert H. Lafky.)

the State Farm adjuster from the date of the accident up until February of 1954?

A. It's kind of hard to remember that far back. The only one I remember very distinctly was the first time that he called me over to the office there and took down in writing all of the details of the accident, how my car happened to be out there, how Al Brock happened to have the car, how long I had known him, and all of the details about that which took, I don't know, an hour or so sitting there talking that over, and he was writing it all down. Now, after—after that time I am not positive whether there were any other times that he called me over to that office or whether I ran into him on the street and just said a few words about it.

Q. Well, let me ask you this, Mr. Lafky: Did you talk more than once to your adjuster about the accident between the date of the accident and the—or, the middle of February, '54?

A. More than once, I am sure, at least, on—at least for just a very few minutes at a time. Possibly—possibly once or twice, as I said, just happening to run into him——

Q. Yes.

A. ——and have a few words. Now, that's the best I can remember.

Q. I see. Well, as I understand it, then, you did talk to him more than on the one occasion?

A. It seems to me as though I did.

Q. And, do you have any recollection or any

(Testimony of Robert H. Lafky.)

estimate as to the number of times you did talk to him now?

A. My best recollection, I would say, probably three times altogether, a couple of them may be just for a few minutes.

Q. All right. What is your best recollection as to the period of time for which those three conversations took place or, if I can make it a little more direct, how much time elapsed between the first conversation and the last one?

A. I would say a matter of, oh, a few weeks.

Q. And, I assume that that would be some time into June or July? A. Probably, yes.

Q. Now, on these several conversations that you had with Mr. Engel—he was the adjuster, was he?

A. Right.

Q. On these conversations with Mr. Engel did you ever discuss the question of coverage as to whether or not the State Farm would defend Mr. Brock against any lawsuit brought against Mr. Brock?

A. I can't tell you whether he came right out and flatly told me that they definitely would not defend Mr. Brock. I knew that either from just the line of questioning he was giving me or something said that very definitely he was implying to me that the reason he wanted the answers to all those questions—

Mr. Vergeer: I would object to the witness' conclusions Your Honor. If he can remember the

(Testimony of Robert H. Lafky.)

conversation I think that would be pertinent. His conclusions, I think, would be improper.

The Court: May I have the witness' answer?

(Last answer read.)

The Court: Can you give, without your impressions, necessarily, the substance of the conversations?

The Witness: The substance of it was something to the effect that there is a specific type of policy that a garage owner has to carry and this policy is just to cover you and we are—we are going to protect you, you don't have a thing to worry about. You have insurance with us but Brock does not.

Mr. Gardner: Q. And, how many occasions did he tell you that, on each of the three occasions?

A. No; just on that first time that he took all those—all that down in writing for his own report that he made those statements. And, that was—I am sure that was where I got the idea. And, then, everything in all of our conversations after that time, why, I just carried that impression in my mind all the way through that they definitely were not going to cover Al Brock.

Mr. Gardner: That's all of this witness, Your Honor.

The Court: Cross examination?

(Testimony of Robert H. Lafky.)

Cross Examination

By Mr. Vergeer:

Q. I think you said you took the car to the garage that morning?

A. (Witness nods head.)

Q. To be worked on? A. Yes.

Q. And, that thereafter Mr. Brock came and told you about the accident?

A. That's right.

Q. That was the afternoon some time?

A. Some time in the afternoon.

Q. Do you know whether Mr. Brock had seen his attorney before he came to see you?

A. I would have no way of knowing.

Q. Yes. He didn't tell you that he had, did he?

A. No.

Q. What did Mr. Brock tell you at that time when you had that conversation with him?

A. When he first came in and told me about the accident?

Q. Yes?

A. He just came in and I could see he was pretty well shaken up and he called me outside—I was standing there talking to three or four other men—and he called me outside and then he told me that he had banged up the car.

Q. Did he tell you what he was doing at the time?

A. No, sir; I can't remember that he told me exactly what he was doing.

(Testimony of Robert H. Lafky.)

Q. Did he tell you that he was testing it at the time?

A. No, he never did flatly tell me that he was testing the car. I know that somehow I got the idea, possibly, on an assumption of my own that he was ready to return the car to me at the time either that he was on the way to return it to me or that that was what he was doing. I don't believe he actually told me that.

Q. But, it was your impression after your conversation with him that that is what he had been doing?

A. That was just my impression, yes.

Mr. Vergeer: I wonder if the Bailiff would hand Plaintiff's Exhibit Number 8 to the witness, please?

(Whereupon the Bailiff did as requested.)

Mr. Vergeer: Q. Will you tell the jury what that Plaintiff's Exhibit Number 8 is?

A. Personal injury report. A report that I filled out in the insurance—in the State Farm Insurance office.

Q. And, you signed that report, did you?

A. Yes.

Q. And, that was your report to the company as to what occurred?

A. Well, someone else did all the writing, I didn't. They probably—in the office I imagine I was standing there talking to them and gave them the details and probably the insurance agent did all the writing himself.

(Testimony of Robert H. Lafky.)

Q. And, after he did the writing you were able to see what he wrote?

A. I suppose I probably watched him.

Q. You watched him write it? A. Yes.

Q. And, then, you signed it, is that right?

A. Well, I imagine. It looks very similar to my signature. I imagine I was so shaken up at the time I was pretty well nervous and everything over the accident that the signature isn't too good.

Q. But, actually, you recall signing the accident report, don't you?

A. I remember I filled out some kind of a report so I must have signed it.

Q. You think that that is your signature on there? A. Yes, it must be.

Q. And, all the writing was on the document before you signed it, isn't that right?

A. Yes.

Mr. Vergeer: We will offer Plaintiff's Exhibit Number 8, Your Honor.

Mr. Gardner: If it please the Court, I would object to the introduction to this on the grounds that there is no basis laid for it. I can't see that it's relevant to the witness' testimony and I don't know whether they are claiming it for impeachment purposes or not.

Mr. Vergeer: If the Court will examine the document it relates to the conversation and has a bearing upon the conversation between Mr. Brock, the garage man, and Mr. Lafky, and he has testi-

(Testimony of Robert H. Lafky.)

fied concerning that conversation and this is further evidence on what the conversation was.

The Court: It will be received.

(Whereupon Defendant's Exhibit 7, an accident report, was received in evidence.)

Mr. Vergeer: Q. Now, Mr. Lafky, I believe on your direct examination—

May I, Your Honor, read that exhibit to the jury at a later time or should I read it to the jury now?

The exhibit is a form printed by the State Farm Mutual Automobile Insurance Company stating "Automobile Claim Report. Western Office." The policyholder's name is "Robert H. Lafky." The policy number is given, his address is "818 Oak Street, Hillsboro, Oregon." The date is "9-28-53 Time and Place of Accident Date May 22, 1953. Time: 3:00 o'clock p.m. City of Hillsboro County of Washington State of Oregon." A description of the policyholder's car follows. Then, there is filled in "Description of damage: front end and side damage." Then, there is described the accident or loss in detail and after that it says, "I had taken my car to the garage for motor work—in testing car, garage owner wrecked it." There is nothing else filled in on that side. Under Personal Injury Report Space there is filled in a question mark "C Driver Age: ? Address: ? Description of Injuries: knee injury." It is then dated 22 May, 1953, Robert H. Lafky.

(Testimony of Robert H. Lafky.)

Q. Mr. Lafky, you and Mr. Brock, the garage owner, were good personal friends, weren't you?

A. Right.

Q. Now, with respect to your conversation with Mr. Engel at a later date did Mr. Engel ever tell you that he would not cover Mr. Brock or that he would not defend him in case he was sued?

A. Whether he flatly stated he wouldn't defend him in case—in case the company was called to—called upon to do it in case it came to court I know that he said that Brock had no insurance with that company and that they would protect me and just me.

Q. Now, do you recall when your deposition was taken on January 29th of this year, you were present, the Reporter was John Beckwith, and there was present Mr. James Gardner who is seated next to me and myself and yourself. It was taken in the Public Service Building. Do you recall at that time being asked this question "Q. Do you recall whether or not you had a conversation with Mr. Engel in which he informed you that if you were sued your company would defend but as long as the suit was just against Brock the insurance company figured there was no coverage and they would not defend that?" And your answer "I can't remember him making that statement as being a definite fact. As best I can remember somebody somewhere along the line gave me the impression and I couldn't say whether Mr. Engel or Mr. Hines or someone else gave me the impression that Mr.

(Testimony of Robert H. Lafky.)

Brock was supposed to have some kind of mechanic's policy to cover him if he was working on the car and operating it just strictly as a mechanic. But, I can't remember Mr. Engel telling me definitely that they would not defend him, no, not making a statement like that." Is that what you said?

A. I don't deny that that's what I said at that time and——

Q. And, at this time——

Mr. Cosgrave: I think the witness was answering further when he was interrupted.

The Court: Yes. I think he was making an explanation.

Mr. Vergeer: All right.

The Court: You may continue.

The Witness: As I have been trying to say here already in the different—the number of different times that I have been questioned about it by various people it has been sometimes hard for me to remember just exactly who made what statement or where I got the idea. Now, that was undoubtedly why I said that there at that time.

Mr. Vergeer: Q. Again, turning to page 21, "Question: Do you recall whether or not you talked to Mr. Engel and he told you that your company would defend you but that they would not defend Brock? Answer: As I stated before I don't recall that he said anything like that as a flat statement." Now, is that——

A. As a flat statement coming out and saying that they definitely would not defend Brock but

(Testimony of Robert H. Lafky.)

telling me that I was the one that had insurance with their company and that Brock did not——

Q. That Brock did not, you mean, that it was not Brock's policy? A. That's right.

Mr. Cosgrave: Well, I will object to that as argumentative, Your Honor.

The Court: I will leave it in the record.

Mr. Vergeer: Q. But, Mr. Engel at all times told you and as far as you were concerned that the company would in any event take care of you because you were its insured?

A. That's right. They told me that they would fully protect me.

Q. There was no question about that at any time, was there? A. No.

Mr. Vergeer: I think that's all.

The Court: Redirect?

Mr. Gardner: I have a few questions, Your Honor.

Redirect Examination

By Mr. Gardner:

Q. Mr. Lafky, do you recall whether or not your deposition was taken January 29, '55, and the one that Mr. Vergeer has referred to?

A. I believe so if that's the date.

Q. Could you tell the jury where it was taken?

A. It was here in Portland.

Q. Do you recall whether or not it was at the office of Holbrook and Cronan in the Public Service Building or—I think it's Schafer, Holbrook and Cronan?

(Testimony of Robert H. Lafky.)

A. The names I wouldn't swear to. I don't know them. I am not familiar with them. But it does seem to me as though it was in the Public Service Building.

Q. Now, do you recall whether or not that you had been asked to come and have your deposition taken by the attorney for Mr. Oslund?

A. I can't remember even who it was that asked me to come in and have the deposition taken.

Q. Do you recall whether or not a subpoena was served on you to be there for the purpose of having the deposition taken?

A. As best I can remember there was no subpoena served; that I was just either telephoned and requested to come in—

Q. Do you recall whether or not the deposition was set for 10:00 a.m. on Saturday morning, January 29, '55?

A. No, I don't recall exactly.

Q. Do you recall whether or not the State Farm after you had been notified of the deposition sent a representative to you to contact Mr. Vergeer prior to the deposition that morning?

A. To the best of my recollection they did.

Q. Do you recall whether or not you did contact Mr. Vergeer that morning prior to the deposition?

A. I did.

Q. And, where did you contact him?

A. At his office.

Q. Do you recall whether or not you had coffee with him?

A. I believe I did, yes.

(Testimony of Robert H. Lafky.)

Q. And, do you recall whether or not you discussed with him what the taking of the deposition was?

A. It seems to me he just more or less explained to me generally.

Q. Well, would you explain to the jury?

A. What the deposition was and tried to relieve my mind as far as being kind of nervous over it or worried about it.

Q. Now, explain to the jury how he explained this to you?

A. I can't really explain it any more than that he just said it was something that I didn't have anything to worry about, it was something that was needed in the process of the litigation that was arising or that was coming up and that—I don't believe he went into it in any more detail than that.

Q. Yes. Well now, Mr. Lafky, do you recall that the deposition after you answered the questions that were just asked you, the same questions Mr. Vergeer has now asked you or read from, and then after he read from those answers do you recall the next question that was asked you at the deposition?

Mr. Vergeer: What page?

Mr. Gardner: Page 25.

“Now, did you have any discussion in his office this morning as to what your obligations and duties were under this policy you have? Answer: No discussion about my duties and obligations, nothing more than a deposition was going to be taken and he was to defend me or to be here with me the

(Testimony of Robert H. Lafky.)

same as in a trial and that a deposition—I asked him what it was like, I had never taken one before, so they told me it was very similar to giving testimony in any trial and that they would have a right to object to part of it or not to answer certain parts of it if he deemed advisable. That was just explained to me what a deposition was like, that was all. Question: What was that about he would defend you the same as” blank “I didn’t understand that? Answer: Well, it was that it was necessary for me to be defendant, if I needed an attorney as far as my car was the car that was involved in the automobile accident and I was carrying my insurance with the company. Question: You understand, Mr. Lafky, that this is a suit against the insurance company and irrespective of how this suit comes out it could not possibly involve you? Answer: No, I haven’t understood that all the way along. I have had no way of knowing whether I was subject to lawsuit personally or not. I have had no way of knowing.” Do you recall those questions and answers being asked?

A. Yes, I recall them.

Q. And, did that happen?

A. Yes, I recall all that.

Mr. Gardner: I wonder if I could have the exhibits here, please? Your Honor, would it be possible for me to approach the witness to ask questions of different points on the exhibit?

The Court: Do you have a copy of it before you?

(Testimony of Robert H. Lafky.)

Mr. Gardner: Yes, Your Honor.

The Court: Can't you use the copy?

Mr. Gardner: Yes, Your Honor.

Q. Now, Mr. Lafky, will you turn to page 1 of this exhibit and so that the record is clear would you read the number of the exhibit if you can find it on it?

A. Exhibit Number 7. It's been changed to here, I believe.

Q. Now, would you turn to the page that you signed? Does that have the date of the 22nd of May, 1955? A. 1953.

Q. Excuse me. '53. Was that the date of the accident that you made the report?

A. It seems to me like it was.

Q. Now, do you remember what time of day it was that you went over to make the report?

A. As best I can remember some time the middle of the afternoon after Al Brock got down there and notified me of the accident and then I went over to the Sheriff's office first, I believe, and filed my accident report there then it seems to me as though I went straight across the street from the Sheriff's office to the State Farm Mutual Insurance office and filed this report there.

Q. Now, Mr. Lafky, about what time was it on the day of the accident that Mr. Brock contacted you?

A. It seems like it was, oh, it may have been anywhere from 3:30, 4:00 o'clock.

(Testimony of Robert H. Lafky.)

Q. And, what time was it that you went to the insurance company's office?

A. It seems to me like it was just barely before closing time; just barely before 5:00.

Q. Well, about how much time did you discuss this accident with Mr. Brock?

A. With Mr. Brock probably just a few minutes.

Q. Well, now, when you were discussing the accident with Mr. Brock this few minutes before you made your report were you at all concerned what Mr. Brock was doing at the time of the accident? Did it make any difference to you?

A. No, it didn't make a bit of difference to me what he was doing.

Q. Do you recall whether or not you specifically asked Mr. Brock at that time, "Were you testing the car when this happened"?

A. No, I definitely did not ask him any such question.

Q. Did you even care whether he was testing the car or not? A. I did not.

Q. Now, when you went over to the insurance company's office you say that that was directly after you talked to Brock? A. Right.

Q. And, that the only discussion—and that you only talked to him for just a few minutes?

A. Right.

Q. Will you turn to this same page that your signature is on, number 1, where it says "Mr. Miss. Mrs." And, then it says "? C Driver. Age: ?. Address: ?." Is that your writing? A. No.

(Testimony of Robert H. Lafky.)

Q. Where it says "Description of Injury: knee injury." Was that your writing?

A. No.

Q. Was Mr. Brock with you at the time you made the report?

A. That I made this report in the insurance company office?

Q. Right.

A. It doesn't seem to me as though he was.

Q. Now, who filled in the other portion of it where it says on the next page "Time and Place of Accident: City: Car:" and so on?

A. It would—it's definitely not my handwriting. I would—my best guess would be that it was either Al Hines the insurance agent or his wife who worked there in the office that I gave one of them the information, stood there at the desk—at the counter talking to them and they wrote it down.

Q. All right. Now, Mr. Lafky, referring to the page of this report where it says, "Policyholder. Robert H. Lafky. Policy Number: 241845-C28-37" then referring to the back page where it says, "C Driver. knee injury" and then referring to the bottom where it says, "Insured must sign here: Robert H. Lafky" did the same person write all three of those?

A. No, I would say it's written by three different people.

Mr. Gardner: That's all, Your Honor.

(Testimony of Robert H. Lafky.)

Recross Examination

By Mr. Vergeer:

Q. And, all of it was written, however, while you were in the office and before you signed it and in your presence, isn't that right?

A. I imagine the—I sure can't remember anything about this "C Driver" and "knee injury." Can't remember what that was all about.

Q. Yes?

A. But, I imagine it—I wouldn't know whether I could have been standing there and they filled out this front side and then just turned it over and said "Sign here" and I signed it and then this be filled in later, I would have no way of knowing.

Q. You have some doubt, then, as to the matter of whether "C Driver. knee injury" was on there when you signed it but you have no doubt about the rest of it, do you?

A. I wouldn't vouch for it because I don't remember.

Q. Well, now, I am not referring now to this "C Driver, knee injury" let's leave that out.

A. Just the front page.

Q. The rest of that was filled in in your presence at the time, wasn't it? A. Yes.

Mr. Vergeer: All right. That's all.

Mr. Gardner: No further questions of this witness, Your Honor.

The Court: Would you hand the exhibit to the Clerk, please, Mr. Lafky?

(Whereupon Mr. Lafky did as instructed by the Court.)

The Court: You may step down.

(Witness excused.)

Instructions

The Court: Members of the jury, the trial of this cause has now reached the point where it becomes the duty and the obligation of the Court to instruct and advise you concerning the law which is applicable to the matters at hand and which shall guide you throughout your entire deliberations upon your verdict.

Now, bear in mind, ladies and gentlemen of the jury, that your sworn duty in this case is, by your verdict, to find a true and a just determination of the cause and all issues of fact based upon the evidence produced here in open court subject to the instructions of law as shall be given to you by the Court.

Now, the Court does have the right to advise with you concerning the evidence; however, the Court has no right in any degree to influence you in determining your ultimate verdict and you are assured that it has no right to do so. Therefore, if during the course of the trial or these instructions you have gained some impression as to how you think the Court might feel with reference to any fact in controversy you must disabuse your mind of that feeling for that is your right. On the other hand the Court is here for the purpose of giving you the law and you shall accept the law as

given to you by the Court and not substitute therefor what you think the law is or what you think the law should be.

Now, the statements and the arguments of counsel are not evidence in the cause nor are they to be taken by you as the law in the matter but you should consider the arguments of counsel and their evaluation of the evidence as they see it for the purpose of helping you to arrive at a true and a just verdict.

Now, the claimant in this cause is H. R. Oslund, and the Court will refer to that party throughout these instructions as the plaintiff. And, the defendant is the State Farm Mutual Automobile Insurance Company, and the Court shall refer to that party as the defendant. Now, bear in mind, members of the jury, that an individual such as the plaintiff in this cause is bound by his own acts and doings just the same as you and I. On the other hand, a corporation necessarily must act and operate through its management and through its servants and its agents and the law provides that the acts and the doings of any agent of a corporation is to be taken as the act and the deed of that corporation as long as that agent or servant had authority from the corporation or apparent authority from the corporation to so act on behalf of the corporation.

Now, ordinarily, the authority of an agent can only be determined in what instructions or what directions the corporation gives to the agent and if they had written instructions that ordinarily

would be binding, but as in this case any authority on the part of the adjuster, Mr. Engel, we must arrive at and determine from the facts and doings of himself and the corporation in relation thereto. In other words, it is a question of fact arising from all of the facts and the circumstances of their conduct with reference to each other and third parties in determining actually what authority that agent had or what apparent authority he had from such facts and circumstances as you have before you and you may infer authority from such acts and conducts as are accepted and ratified by the corporation.

Basically speaking, members of the jury, this is what would be called an action in contract and the rights of the plaintiff in this cause arise solely from the contract in question and the obligations and the responsibilities of the defendant to the plaintiff arise only from the terms of that contract; they can be no less and they can be no greater. Therefore, under the facts and the law of this case we look solely to the contract of insurance as determining the rights of the plaintiff, if any, and determining the obligations, if any, of the defendant to the plaintiff. We have that before us but under the law and the facts of this case the issues boil down to relatively two simple questions. It is conceded that the contract of insurance was in force. It is also conceded that the automobile being driven by Mr. Brock was being driven with the consent under the terms of the policy of the name insured, Mr. Lafky. But, the differences between the two

parties arise by reason of the defendant's claim that Mr. Brock in connection with the litigation of this plaintiff against Mr. Brock failed to comply with the terms of the policy which provided in effect that all demands on the part of this plaintiff made against Mr. Brock and all Summons or Complaint or process issued in any court arising out of litigation by this plaintiff against Mr. Brock in the State Court referred to should have been timely sent to the defendant.

Now, ordinarily speaking the defendant is entitled to have that provision of the contract complied with before its liability, if any, occurs under the contract. Now, it is conceded in this cause that the so-called copies or the original of the Summons and Complaint and the demands were not forwarded to the defendant company and in this respect the Court said it was the obligation of Brock to comply with this provision if he wished the insurance company to accept its liability thereunder unless it can be found that he was excused from doing so by the acts and the conduct of the defendant. And, in this regard you are instructed that the plaintiff contends that the defendant through its alleged agent denied obligation or liability to Mr. A. L. Brock and that therefore he was excused in so doing. In determining whether or not the insurance company did deny coverage to Mr. Brock it is not enough for you to find that a question of fact admittedly existed between Mr. Brink who was the attorney for Mr. Brock and Mr. Engel the adjuster. As to the use which was being made of the Chrys-

ler automobile at the time of the accident, the mere statement of opinion on the part of the representative of the insurance company is not enough to justify a finding that the company refused coverage. Unless coverage or liability was definitely denied to Mr. Brock by the insurance company at the time prior to the filing of the action by Mr. Oslund your verdict in the case must be for the defendant. If on the other hand, you find from a preponderance of all of the evidence in the case that the defendant did, acting through its agent, Mr. Engel, definitely deny any liability under the policy to Mr. A. L. Brock during the time of the discussions referred to in the evidence then you should consider the second phase of this case, the second phase being the second question which is raised by the contention of these parties, namely, was the automobile being operated in the course of the operation and management of a garage business.

Now, under the terms of the policy it is provided that the insurance company should not be liable in the event that any accident involving the car mentioned in the policy arose out of its operation in the course of the operation of a garage building. The defendant contends that that was the case. The plaintiff contends that under the facts of the case the car was being driven for the personal use of Mr. Brock and in this connection then it must be necessary for you to determine whether or not this denial—now, members of the jury, I wish to go back in connection with the denial of the liability claim. The Court referred to that. It would

be your obligation then to go on and consider a second phase of the case and I started to discuss with you the condition of the policy or the exclusion of the policy with reference to the car being or not being operated in the course of the garage building. I misspoke myself. There is one phase that I think you must consider before we go into that piece of discussion in an orderly fashion. The Court having already instructed you that if you did find from a preponderance of the evidence that the company through its agent did deny liability, then it would be necessary for you to go to the second phase of that question or the contention of the plaintiff merely that by the acts and doings of the defendant it waived the provision of the policy that it should receive notices and copies of the Summons and Complaint. And, in that regard if you find that the defendant after having actual knowledge of the nature of the claim of this plaintiff against Brock denied that its policy of insurance covered A. L. Brock on the ground that the accident arose out of the operation of the garage then such a denial is, under the law, a waiver of any policy requirements as to the furnishing of the defendant with notice of suit, copies or the original of Summons and Complaint, and in that event you cannot consider as a defense any lack of delivery of such notices, Summons, or Complaint and you must find in favor of the plaintiff in connection with its claim, that is, claim that the company waived that provision of the policy called to your attention.

Now, turning our attention to the second issue of the cause, namely, whether or not the automobile at the time of the accident was being driven in the course of the operation of an automobile repair business, you are instructed that the defendant is claiming as a defense that the accident on May 22, 1953, arose out of the operation of a garage business. You are instructed that the defense just referred to is based upon an exclusion in the insurance policy of the defendant and in this connection you are instructed that with respect to the use of any automobile in that regard there is no precise definition of the phrase "arising out of the operation of an automobile repair shop" or a public garage possible. It is a question of fact for you to determine under all of the facts and circumstances of any particular use. The mere fact that some phase of the garage operation might possibly have been connected with the use of the Lafky automobile, that alone does not warrant a finding by you that the action of the operation of the automobile was in the course of the operation of a garage. However, if you find that A. L. Brock at the time of the accident was driving the automobile in question on a personal errand not naturally or necessarily connected with the operation of his garage business then you are instructed that the operation of the automobile and the accident resulting did not arise out of the operation of a garage business nor was the automobile being used in such an operation, and this defense claimed by the defendant would not be available to it. And, having reached that stage of

your consideration your verdict should be for the plaintiff. If, however, you find from a preponderance of all of the evidence in the case that Brock's purpose in driving the car at the time of the accident was for the purpose of making a road test following the repair or adjustment of the car in the course of his garage business or in any incidental use in connection with making such a road test that would necessarily be a part of the operation of his garage business then you are instructed that it would be your duty to return into Court a verdict for the defendant.

Members of the jury, the proof in all cases rests upon the party having the burden of proof in the case. Now, of these two issues we have been discussing; namely, first, whether or not the defendant through its act and conduct in connection with denying liability, if you find from a preponderance of the evidence that it did deny liability and as a result thereof waived its provisions of the policy that required that all notices and demands, summonses, complaints, and processes served upon Mr. Brock be delivered to them would be upon the plaintiff and it would be the duty and obligation and the plaintiff would have the burden of proving to you by a preponderance of all of the satisfactory evidence in the case that the defendant did so waive the provision referred to in accordance with the terms of these instructions. Now, on the other hand, as to the question of whether or not the automobile being driven by Mr. Brock at the time of the accident was then being driven in the course of the

operation of his garage business, it rests upon the defendant and defendant has the burden of proving to you by a preponderance of all of the evidence in the case that the car at the time of the accident was being so driven in the ordinary course of the business of Mr. Brock's automobile repair shop, and ordinarily the party has the burden of proof to prove his case or his side of the case by a preponderance of the evidence. To inquire as to what we mean by a preponderance of the evidence, by that term we mean the greater weight of the evidence or that quantum of evidence when fully and fairly considered and weighed produces upon a reasonable and an impartial mind the stronger impression and is more convincing of its truth than the evidence in opposition thereto. In other words, the party having the burden of proof in any particular phase must make out the better and the most reasonable case in that regard in light of all of the evidence in the case.

Bear in mind, members of jury, that throughout your entire deliberations of the phases and facts and issues that have been submitted to you by way of determining the liability or the non-liability of defendant in this case you must not be influenced in any degree or any manner by sympathy or prejudice and you must base your ultimate verdict upon a calm and a conscientious and orderly and judicious consideration of all of the facts in the case subject to these instructions.

The Court will submit to you in addition to the general verdict form that the Court will call your

attention to later on a so-called special interrogatory or a special finding and the finding of this question you are required to answer and will be answered by a yes or no answer. Whenever you have arrived at your answer to this question you will cause your foreman to write in and fill in your yes or no answer and sign that special finding in the same manner that your foreman will sign a general verdict as I shall hereafter discuss with you.

In connection with this question it reads simply as follows: "Was A. L. Brock, at the time of the accident, using Mr. Robert Lafky's automobile in the course of his business as a garage mechanic:" spaces for your yes or no answer and a signature line for your foreman. If you find that Mr. Brock's purpose in taking the car on this trip was to test it with respect to its mechanical operation then your answer to the special question should be yes. On the other hand if you find that Mr. Brock's purpose in taking the Lafky car on the trip in question was simply to have transportation for an errand of a nature personal to him and not necessarily connected with his business as the operator of a garage then your answer to this special question should be no.

Members of the jury, under the law it becomes necessary for the Court and counsel to confer before submitting the matter finally to you for determination. Will you please excuse us and make yourselves comfortable in the jury room until you are called?

(Whereupon the jury was excused and the following proceedings were held out of the presence of the jury.)

The Court: Now, I will advise counsel that I will give a few cautionary instructions such as what you might call statutory as well as the defendant's requested instructions about—

Mr. Vergeer: It's my understanding the Court is still going to do that?

The Court: I wanted to wind up any corrections I want to make. Plaintiff's exceptions?

Mr. Cosgrave: Your Honor, the plaintiff will except to the Court's giving of the Defendant's Requested Instruction which begins "In determining whether the insurance company denied coverage to Mr. Brock, it is not enough for you to find that a question of fact admittedly," and so forth—

The Court: Yes.

Mr. Cosgrave: —on the grounds and for the reason that the instruction is argumentative and on the further ground that it does not correctly state the law in that the word "denied" is preceded by the word "definitely" and that the law clearly with respect to waiver is that it may be even from conduct. The word "definitely" makes the instruction argumentative and imposes a burden of proof upon the plaintiff it should not have to sustain.

I would further—well, that would be the only exception to the instructions, Your Honor.

The Court: You may have your exception.

Mr. Vergeer: If the Court please, we will ask for an exception to the failure of the Court to—I

believe the Court did not give the one instruction the Court informed us in advance that he wouldn't give which begins "One of the issues raised by plaintiffs in this cause * * *"

The Court: Yes.

Mr. Vergeer: The Court did not give that instruction and I would like an exception to that. Then, I would like an exception to the Court's giving of the Plaintiff's Requested Instruction Number 7 which reads "The mere fact that some phase of the garage operation might have been connected with the use of the Lafky automobile by Mr. Brock does not alone warrant a finding by you that the action arose out of the operation of a garage" but "If you find that A. L. Brock, at the time of the accident, was driving the automobile in question on a personal errand not naturally and necessarily connected with the operation of the garage, then the accident did not arise out of the operation of a garage and this defense would not be available to the defendant" on the theory, Your Honor, that that is the question presented to the jury and while it might not naturally or necessarily be connected with the operation of the garage if, in fact, it was connected with the operation of the garage and arose out of the operation of the garage would nevertheless be a defense to us. That is the only other.

The Court: You may have your exception.

Mr. Cosgrave: I will ask a further. Did I understand originally that exceptions were allowed to the failure to give requested instructions, Your Honor,

or did you want us to take exceptions to the failure to give any requested instruction?

The Court: Well, if you want to rely on your record you had better take an exception.

Mr. Cosgrave: All right. The plaintiff would except to the Court's failure to give Plaintiff's Requested Instruction Number 1; the failure to give Plaintiff's Requested Instruction Number 9, Number 13, particularly in view of the Court's using the word "definitely"; and Instruction Number 14 with respect to estoppel.

The Court: I think I used the word in connection with discussion.

Mr. Cosgrave: I beg your pardon.

The Court: I think I used the word in connection with discussion.

Mr. Cosgrave: You mean the word "definitely," Your Honor?

The Court: No. What I had in mind, I struck the "It is not necessary that a denial of coverage be in writing, any oral statement or acts by the insurance company denying liability under its policy would be sufficient." And it occurred to me that by you saying that by the use of "definitely" that that would mean that it would have to be in writing—

Mr. Cosgrave: Yes, I think it would.

The Court: —well, I don't think to the jury that would mean it would have to be in writing.

Mr. Vergeer: Your Honor, there is nothing in this case which has anything to do with anything being in writing.

The Court: I understand.

Mr. Vergeer: Injecting such a thought into the mind of a jury would probably be the problem.

The Court: You may have your exceptions.

Mr. Cosgrave: Thank you, Your Honor.

The Court: Will you please call the jury?

(Whereupon the jury was seated and the following proceedings were held in the presence of the jury:)

The Court: Members of the jury, every witness is presumed to speak the truth. This presumption, however, may be overcome by the manner in which the witness testifies, by the character of his testimony, and by evidence affecting his character or motives or by contradictory evidence. And also you may take into consideration in determining what credibility you desire to give to the testimony of any witness, the particular interest in the outcome of the cause such witness may have as appears from the evidence. You are the exclusive judges of the credibility of the witnesses and of the effect and value of the evidence and of every question of fact in the cause but your power of judging the credibility of witnesses and the effect in value of the evidence is not arbitrary and must be exercised by you with legal discretion in subordination to the rules of evidence as determined by the Court. You are not bound to find in conformity with the declarations of any number of witnesses which do not produce conviction in your minds as against a lesser number or as against a presumption or other evidence that bind your minds.

If in the course of the trial any witness has testi-

fied falsely in any particular of his testimony you should consider the rest of such witness' testimony with caution. And if you further find that any witness has willfully testified falsely in any particular then you are entitled to disregard the testimony of such witness altogether.

Evidence is to be estimated not only by its own intrinsic weight but also according to the evidence which is in the power of one side to produce and of the other to contradict. Therefore, if weaker or less satisfactory evidence is offered when it appears that stronger and more satisfactory evidence was within the power of the party the evidence offered should be viewed by you with distrust.

Now, members of the jury, when you retire to the jury room you should elect from one of your number a foreman who should act as your chairman throughout your entire deliberations. You will be supplied with two forms of verdict, a general verdict together with this special question that the Court advised you about. The first form of verdict appearing in my hand reads as follows: "We the jury duly impaneled and sworn to try the above-entitled cause find our verdict in favor of the plaintiff and against the defendant and assess the amount to be recovered in the sum of \$10,000 together with interest thereon at the rate of 6 per cent per annum from February 27, 1954. Dated September 28, 1955." Signature line for the foreman. The second form of verdict that I have in my hand reads: "We the jury duly impaneled and sworn to try the above-entitled cause find our verdict in

favor of the defendant and against the plaintiff dated this blank day of September, 1955." A signature line for the foreman. If your verdict in this cause be for the defendant cause your foreman to sign the same and return it into Court. Again, the question asked to you in the special interrogatory reads: "Was A. L. Brock at the time of the accident using Mr. Lafky's automobile in the course of his business as a garage mechanic?" Spaces for yes and no answer. Cause your foreman to fill in such answer as you shall find, sign the verdict, and return it into Court.

Will you charge the Bailiff?

(Bailiff charged.)

The Court: You may retire in the custody of the Bailiff.

(Whereupon the jury retired for deliberation.)

[Endorsed]: Filed Nov. 21, 1955.

[Title of District Court and Cause.]

PARTIAL TRANSCRIPT OF PROCEEDINGS,
TESTIMONY OF MERVIN W. BRINK, ED-
WARD I. ENGEL, AND RALPH THOMI-
SON

Portland Oregon, Sept. 27, 28, 1955

Before: Honorable William G. East, District
Judge.

* * * * *

Mr. Gardner: I would like to call Mervin W.
Brink.

MERVIN W. BRINK

produced as a witness on behalf of the plaintiff,
being first duly sworn by the Clerk, was examined
and testified as follows:

Direct Examination

By Mr. Cosgrave:

Q. You are Mervin W. Brink?

A. That's correct.

Q. And, will you tell the jury what your oc-
cupation is? A. I am an attorney.

Q. And, where do you practice law?

A. In Hillsboro.

Q. What is the name of the law firm?

A. Schwenn and Brink.

Q. How long have you practiced there, Mr.
Brink? A. Since 1942.

Q. Are you married? A. I am.

Q. Do you have any children? A. Six.

(Testimony of Mervin W. Brink.)

Q. Are you connected with Mr. Gardner in your practice? I mean, are you associates or partners out there in any way?

A. No. We are strictly adversaries.

Q. So, there is no connection between your offices? A. Not at all.

Q. All right. Have you at times in the past represented Mr. Brock who just testified?

A. I represented Mr. Brock since—well, I don't remember just when—yes, I have since before this accident happened with Mr. Oslund, however.

Q. You had represented him on other matters before the accident?

A. I had represented him, as I recall, on a couple of minor matters prior to that time.

Q. And, did Mr. Brock consult you with reference to this accident that he had on May 22, 1953?

A. Yes, he did.

Q. And, do you recall about when it was that he first came to see you?

A. Well, I checked my records last night. We keep a file in the office of people that come in. And, it was the latter part of May.

Q. I see. Do you remember whether after that time you had any conversation with Mr. Edward Engel who sits—

A. Yes, I see him back there.

Q. —or was sitting in the courtroom? And, do you know what his occupation is?

A. He was and I assume still is an adjuster for the State Farm Mutual.

(Testimony of Mervin W. Brink.)

Q. All right. And, when you first talked to him what was the nature of your conversation?

A. Are you talking about this accident?

Q. Yes, with respect to this accident?

A. Mr. Engel was in our office on another matter, as I recall it. The first time I discussed it with him he was in my partner's office which is closer to the door than mine and I was engaged with another client and as I stepped to the door Mr. Engel was in the doorway of Mr. Schwenn's office, he had been talking with him preparatory to leaving so I then talked—or, he talked to me about this, mentioned this accident, and then I discussed it with him at that time.

Q. And, what conversation did you have with him with respect to any insurance of the State Farm Mutual Insurance Company?

A. Well, I can't remember the exact words. I have talked with Mr. Engel many many times about various cases over a period of years but the gist of the conversation, as I recall it, was that I kiddingly or jokingly told him that this was one the State Farm was stuck on and he told me that, no, they had a policy exclusion on this case and they were not interested in it.

Q. Did he state to you that their policy did not cover Brock for this accident?

A. In so many words. I can't say that that was his exact language.

Q. The conversation as you have given it here to us previously? A. Yes.

(Testimony of Mervin W. Brink.)

Q. All right.

A. He said simply that they were not—that they weren't concerned about the case and they weren't on it because they had a policy exclusion. Now, that's the first time.

Q. Did he mention the policy exclusion that they had? A. Yes, he did.

Q. And, what was it?

A. It was the garage operator's exclusion.

Q. All right.

A. As a matter of fact, we—well, not at that time but a later date we did discuss it further.

Q. All right. Did you have a further conversation with him then about this accident?

A. Well, I talked to him several times about it over the course of the summer and the next spring. I don't think he ever specifically came in to see me about this accident. But, when we were talking about other cases we would discuss it from time to time.

Q. And, did you discuss with him on those occasions the fact that a suit was pending?

A. Well, I think the second or third time that he had come into my office and this case came up in a conversation we discussed the policy exclusion and he didn't have with him a State Farm policy nor did I have one in the office but I got out my own liability policy and we were examining or, rather, I examined the policy and got it out and looked at the garage owner's exclusion on standard form policy and Mr. Engel recited to me, as I re-

(Testimony of Mervin W. Brink.)

call, the conversation that that was substantially the same form that they had in theirs. And, at the time I asked him if they were still standing on their exclusion and he said they were.

Q. And, did you at that time tell him that you were defending Mr. Brock in the Circuit Court?

A. Well, he knew that. He knew that.

Q. He knew that you were defending?

A. Yes.

Q. You had discussed the pendency of that case?

A. Oh, yes. There wasn't any question about that at all.

A. And, did he on other occasions ask you, inquire about the status of the case on the occasion when he was in there on other purposes?

A. Well, he mentioned it casually from time to time, yes. I believe that I discussed with Ed the second or third time we talked about it or maybe even the first time the fact that the Girard was also on it—was also the other carrier and I felt that they were primarily liable on the thing.

Q. I will ask you this: Mr. Brink, is it normally your practice to forward the Summons and Complaint to the insurance company involved?

A. It would be but in this case there were two companies, first of all, and there was only one copy of the Summons and Complaint and I had no photo re-processor in the office. We do now but we didn't at that time. I thought that Girard was the primary carrier and I told Cal, the agent who had written the policy and whom Mr. Brock had notified and

(Testimony of Mervin W. Brink.)

whom he had notified, that he had been sued and they had disclaimed any liability. So, I wrote them a letter and Mr. Engel had said that his company wasn't interested in it because they had a policy exclusion and I told him in my opinion they were but there wasn't any use in forwarding them.

Q. All right. Well, that was my question. If he had not made the statements to you that he had would you have forwarded the Summons and Complaint to them?

A. I would have called Mr. Vergeer and told him I had a Summons and Complaint and asked him if he wanted it.

Q. Yes?

A. But, here is the difference—I mean, to explain why I didn't do this—I don't want you to feel that I let the client down—the Girard agent was a local agent who writes the policy. He is not an adjuster or, in my opinion, an authorized agent to whom a Summons and Complaint would be forwarded. On the other hand, Mr. Engel is an agent and he is an adjuster. He comes out and writes checks, gives releases, and takes them, and does all the other business for the company in that area. Now, that's the reason I didn't go any further than that when Mr. Engel disclaimed any liability.

Q. You felt that was the word of the company?

A. That's right.

Mr. Cosgrave: All right. No further questions.

(Testimony of Mervin W. Brink.)

Cross Examination

By Mr. Vergeer:

Q. Actually, Mr. Brink, you know that Mr. Engel has no authority to admit or deny coverage, don't you?

A. Well, Mr. Vergeer, I don't know the extent of Mr. Engel's authority. I do know what he has told me so far as his authority is concerned. I know that in some instances he does not have sufficient authority to settle certain lawsuits either because of the amount involved or other factors. On others he does. But——

Q. The question, then, is open in your mind as to whether he has authority to deny coverage for the company or otherwise?

A. I think not, not in my mind. When an adjuster comes out to you and he says we are denying liability any lawyer who handles a lot of personal injury cases or many personal injury cases, even your office, I would assume, would accept that as the word of the company.

Q. Now, let me ask you whether the Girard, that is the employer's group who had the policy on the Brock car, they refused liability—they refused coverage, didn't they?

A. They refused coverage through their agent who wrote the policy in Hillsboro.

Mr. Cosgrave: What the Girard people would do would have no bearing on this case.

The Court: Are you objecting to it?

Mr. Cosgrave: Yes.

(Testimony of Mervin W. Brink.)

The Court: What do you claim for it, Mr. Vergeer?

Mr. Vergeer: I am going into the question of what Mr. Brink did and what Mr. Brink was thinking because this was gone into, the question of what Mr. Brink's opinion and belief was at the time. I will show a different course of conduct as to the Girard Insurance Company and as applies to the State Farm Mutual Company. Counsel has gone into it on direct examination, Your Honor.

The Court: What was the last question, please?

(Last question read.)

The Court: You may inquire.

Mr. Vergeer: Q. They did refuse coverage?

A. Yes, by telephone. Mr. Wilcox and I talked the matter over on the telephone.

Q. What I wanted to get straight, Mr. Brink, is just how they refused coverage? How did they go about it, did they write you a letter?

A. They did not write me a letter. As I recall, Mr. Wilcox, their agent in Hillsboro, talked to me on the telephone.

Q. I see.

A. Now, I could examine my file but I am almost certain that they did not write me a letter.

Q. Now, then, after they had done this, after the agent informed you, what did you do when you received the Summons and Complaint?

A. I wrote the agent a letter.

Q. And, did you send him a copy of the Summons and Complaint? A. I did not.

(Testimony of Mervin W. Brink.)

Q. You did not. Did you ask him to defend the lawsuit? A. I did not.

Q. And, that in spite of the fact that he told you that there was no coverage?

A. That's correct.

Q. All right. Now, as to the State Farm Mutual did you ever ask them to defend this lawsuit?

A. I did not.

Q. And, you never sent them any copies of Summons or Complaint or gave them to Mr. Engel or anything like that?

A. I did not, Mr. Vergeer.

Q. Now, Mr. Brink, in your first discussion with Mr. Engel wasn't it a statement by Mr. Engel that in his opinion this man was using his car in the course of the garage business and that if that were so there would be no coverage?

A. Well, I would like to say that that was the case but I can't do it. I——

Q. I want you to say only what you remember.

A. My recollection of it is that "We are not on it. We have a policy exclusion."

Q. On the theory that the man was in the course of the garage business?

A. That's right. And, Ed was going to law school then and he was—it was an academic matter later that we discussed, that's why I got that policy out and I told him in my opinion I thought it was—the company was——

Q. Now, in spite of what Mr. Engel told you you

(Testimony of Mervin W. Brink.)

were of the opinion that the company had liability in the matter to Mr. Brock?

A. I was uncertain in my own mind at the time of the first discussion as to whether they did or not because I had not at that time looked at the garage exclusion policies. Subsequently I became convinced in my own mind after looking at one that under the circumstances of the case the State Farm Mutual did have coverage on it.

Q. All right. Now, this was on your first conversation within a few days of the time of the accident, isn't that right?

A. Well, which phase of it are you relating to?

Q. This first conversation with Mr. Engel that you referred to that we have been talking about.

A. Yes, it was.

Q. And, after that, however, you did have further discussions with Mr. Engel on the question of whether the company should be liable or should not be liable under their policy? A. Yes.

Q. I mean, that didn't close the matter out between you?

A. No. As a matter of fact, the day that Mr. Brock's deposition was taken Mr. Engel came into my office and I mentioned to him that the deposition was being taken and that he might be interested in it and, as I recall, he went over to the Court-house and sat in on it or was in the courtroom when it was taken.

Q. Now, referring to this first conversation, Mr.

(Testimony of Mervin W. Brink.)

Brink, do you recall, of course, when your deposition was taken in your own office?

A. Yes. I believe that I said the first time I talked with him then was the 5th or the 9th, somewhere along there, of June.

Q. Well, I don't care about the exact day, you understand? A. But, it was—

Q. But that was on April 9, 1955, early this year. You recall that? A. Yes.

Q. And, at that time you were asked about this first conversation and you were asked, "Did you write any letters or have any conversation with the representative of the State Farm Insurance in Hillsboro, Mr. Hines—no. I have the wrong pages. You had explained that he had been standing in the doorway of your partner's office— A. Yes.

Q. —and you saw him there and you were asked—you offered to explain the thing to the parties present and your explanation was as follows: "All I know about State Farm in respect to this thing is Ed Engel was out here on a case this office was interested in or a couple of cases, I don't remember, at that time. He was sitting in Bill Schwenn's office and he was down there and was standing in the doorway talking with Bill when I came out of my office. At that time we were kind of kidding him about the Brock case, about State Farm being interested in that, because it was my understanding State Farm had liability on the Lafky car. He said, 'No, we are not on that case.' Generally, I said I thought perhaps they were and

(Testimony of Mervin W. Brink.)

he said, 'No, I have taken a court reporter out there and taken a statement from Mr. Brock and in my opinion we are not liable.' " Is that what he said?

A. Well, Mr. Vergeer, I don't remember whether that is what he said or not but, as I have said, the conversation was substantially along those lines. I can't remember the exact language. If I—

Q. No—

A. That is what I must have said in the deposition you are reading from.

Q. Yes. You said this. Of course, you don't deny saying this? You don't deny saying what is here?

A. Oh, no.

Q. Now, Mr. Brink, further with respect to a further conversation between you subsequently "* * * probably around September or the fall of that year, and we were discussing the settlement of another lawsuit in which I was interested in. Just the two of us were present and at that time we again discussed the question of liability in connection with this thing and he said to me it was his opinion the State Farm wasn't liable under the facts as he had them and from the statement he had taken from Mr. Brock." Is that the way he put it to you?

A. Well, as I remember it that probably is right. I mean, he expressed the opinion that the company was not on it and I expressed the opinion that I felt they were.

Q. Well, in that—

A. Now, as to—now, as to the question of

(Testimony of Mervin W. Brink.)

whether Ed ever said directly it's just my opinion that we are not on it or whether he said we are not on it I can say this that he expressed to me the opinion of the company that the company was not on it. I use the word "opinion." He said, "We are not on the case. We have a policy exclusion."

Q. Yes. And, that was based, as you understood it, upon his understanding of the facts, is that right?

A. That was the initial conversation. Certainly, upon his understanding of the facts and the law as related to the exclusion.

Q. And, the further statement which was not asked you but which was a statement you volunteered here "Just the two of us were present and at that time we again discussed the question of liability in connection with this thing and he said to me it was his opinion the State Farm wasn't liable under the facts as he had them and from the statement he had taken from Mr. Brock."?

A. Yes, that's what I said.

Q. And, that is your best recollection, isn't it?

A. That was my best recollection at that time, certainly.

Q. Now, then, when you received this Complaint and Summons you still felt the State Farm Mutual was on the case?

A. Duane, I felt this way about it: I felt that Girard had coverage primarily and that under the factual situation as Mr. Brock had recited them to me that the garage exclusion wouldn't apply and that the State Farm would be secondarily liable.

(Testimony of Mervin W. Brink.)

That was my personal feeling about it. The Girard had refused to defend the case and Mr. Engel had notice of what was going on in the case so I went ahead and defended it. I filed an Answer and did defend the case.

Q. And, however, in view of the fact that you knew there was some question existing between you, a question of fact, as to whether this man was in the course of the garage business, you did not tender the defense to the State Farm Mutual?

A. You mean by tendering a defense——

Q. Asking them to defend it.

A. Did I come out and ask them to defend it? I did not.

Q. Mr. Brink, is it possible that the reason you did not ask the State Farm Mutual to defend in this case is because Mr. Brock told you that he was testing the car at the time of the accident?

A. No.

Q. It isn't a fact that he told you that he was in the course of the garage business at the time and you felt that State Farm shouldn't be on it and that you therefore did not tender the defense to them?

A. No, that is not correct. That's not the reason why.

Mr. Vergeer: That's all.

Redirect Examination

By Mr. Cosgrave:

Q. Mr. Brink, you wouldn't be here as a lawyer testifying if what Mr. Vergeer is suggesting to a

(Testimony of Mervin W. Brink.)

fellow attorney were in any way true, would you? In other words, if some such admission had been made you wouldn't be here testifying as you are now? A. Mr.—

Mr. Vergeer: I object to the question, Your Honor. It calls for a conclusion. It passes upon a question that is properly a question for the jury.

The Court: I don't believe that the question has any probative value concerning any inquiry here. It may have some other relationship.

Mr. Cosgrave: No further questions.

Mr. Vergeer: Thank you.

(Whereupon the witness was excused.)

* * * * *

MERVIN W. BRINK

previously produced as a witness on behalf of the plaintiff, previously sworn, was further examined, and testified as follows:

Direct Examination

By Mr. Cosgrave:

Q. Mr. Brink, having been previously sworn, I will ask you now whether Edward Engel, the adjuster for the defendant, State Farm Mutual Insurance Company, ever made any statement to you to the effect that he did not have authority to deny coverage or liability. A. In this case?

Q. In the case of the accident which you were defending and in this case?

A. No, I recall no such statement.

(Testimony of Mervin W. Brink.)

Q. And, if he had made such a statement would you recall it? A. Well——

Mr. Vergeer: Well, I object to that, Your Honor.

The Court: Yes. That's purely conjecture.

Mr. Cosgrave: Very well.

Q. Did Mr. Engel ever make any statement to you to the effect that his authority was limited? I mean now authority with respect to binding the company, I do not mean authority with respect to how much he could go in settlement.

A. There was no discussion between Mr. Engel and myself about his authority in this case that I can remember.

Q. All right. Is it or is it not a fact, Mr. Brink, that attorneys and adjusters discuss frequently the matters of authority as meaning the amount to which an adjuster is authorized to go by his company in payment?

Mr. Vergeer: I think, Your Honor, that we are now going afield from the proposal of the evidence and that it doesn't lend anything to this case.

The Court: I will sustain the objection.

Mr. Cosgrave: Well, perhaps I could ask it a different way.

The Court: Very well.

Mr. Cosgrave: Q. I will ask you, did you ever discuss with Mr. Engel on this case or other cases authority insofar as that relating to the amount that his company was willing to pay?

A. Yes, I have.

Q. And, did that refer only to the amount?

(Testimony of Mervin W. Brink.)

A. Well, yes, I guess you could put it a straight "yes" answer.

Mr. Cosgrave: All right. No further questions.

Mr. Vergeer: I have no questions.

Mr. Cosgrave: Thank you, Mr. Brink.

The Court: That is all. You may step down.

The Witness: May I be excused?

Mr. Cosgrave: As far as plaintiff is concerned you may be excused.

The Court: The parties have indicated that you may be excused.

(Whereupon the witness was excused.)

* * * * *

RALPH THOMISON

produced as a witness on behalf of the plaintiff, being first duly sworn, was examined, and testified as follows:

Direct Examination

By Mr. Gardner:

Q. Will you state your name again to the jury, please? A. Ralph Thomison.

Q. And, would you spell the last name for the Court Reporter?

A. (Spelling) T-h-o-m-i-s-o-n.

Q. And, where do you live, Mr. Thomison?

A. At 406, Route 4, Hillsboro.

Q. And, about how far is that from Mr. Brock's shop?

A. Oh, I'd imagine between three-quarters of a mile and maybe a mile.

(Testimony of Ralph Thomison.)

Q. How long have you lived in the Hillsboro area?
A. Since '47.

Q. Do you own property near the Hillsboro—
A. I do.

Q. And, what type of property is it?

A. I have a garage building and then I have a farm—a nut farm of 12 acres.

Q. And, could you tell us whether or not you rent the garage building to Mr. Brock?

A. I do.

Q. On occasions have you worked for Mr. Brock?

A. Yes; at times when I had time to get away from home, he got snowed under, or something like that.

Q. Yes. And, on this filbert farm that you have, this 12 acres, do you have any chickens?

A. I do.

Q. How long have you known Mr. Brock?

A. Well, let's see—I think I first met him in either '47 or '48, I wouldn't say. Anyway, it was around that.

Q. Yes. Now, Mr. Thomison, will you recall back to May 22, 1953? As I understand it, that was the date of the accident between Mr. Oslund and Mr. Brock?

A. Yes. I remember I didn't—I couldn't recall just the date but I remember the incident when it happened.

Q. Do you recall whether or not Mr. Brock came out that afternoon to see you?

(Testimony of Ralph Thomison.)

A. Yes—well, he was out to the place, came out after some eggs, get some eggs from me.

Q. Do you recall about what time it was that he came out to get some eggs?

A. Oh, now, let's see—it just seems to me like it was afternoon but I couldn't say for sure. But, I believe it was afternoon. But, as far as the time of day I couldn't recall because I just went to the house long enough to get him the eggs and then he went on. That's—

Mr. Gardner: I think that's all of this witness, Your Honor.

Mr. Vergeer: I have no questions.

The Court: That's all, sir. You may step down.

(Whereupon the witness was excused.)

* * * * *

EDWARD I. ENGEL

produced as a witness on behalf of the defendant, being first duly sworn, was examined and testified as follows:

Direct Examination

By Mr. Vergeer:

Q. Will you state your name for the jury?

A. Edward I. Engel.

Q. Where do you live, Mr. Engel?

A. 12654 Northeast Hassalo, Portland.

Q. How old are you? A. I am 29.

Q. How long have you been a resident of this area? A. All my life.

Q. Are you married? A. Yes, sir.

Q. By whom are you employed?

(Testimony of Edward I. Engel.)

A. State Farm Mutual Automobile Insurance Company.

Q. How long have you been employed by that company?

A. A little over three and a half years.

Q. In what capacity?

A. Claims adjuster.

Q. Now, you say three and a half years?

A. Yes.

Q. And, when were you first employed by them, if you recall?

A. In March of 1952.

Q. So, along about May, 1953, you had been employed by the company approximately a year, is that right?

A. That is correct.

Q. Now, Mr. Engel, what are your duties?

A. My duty is to investigate accidents, take the reports from the insureds and go out and find out how the accident occurred and attempt to determine where the liability rests for the accident and, also, upon authority granted me by the company, to make settlements.

Q. When you say, "upon authority granted you by the company," is that a general authority or is it specific authority in each case?

A. It's a general.

Mr. Cosgrave: Just a moment. I don't mean to interrupt so early but I think, Your Honor, any limitation that the company might have on his authority would not be material, the only thing that is material is what authority he apparently had when he went out to see these people.

(Testimony of Edward I. Engel.)

The Court: May I have the question again?

(Question read.)

The Court: I think it calls for a conclusion of this witness.

Mr. Vergeer: Well, Your Honor, I may say this: what I want to have the witness explain is whether he is given specific authority to settle a particular case and when he acts only upon that authority or whether he has a general authority which would permit his discretion to be used within whether he should settle a case.

The Court: I would suggest that it would be beneficial to the jury if you would ask the witness to testify to his version of what his instructions were.

Mr. Vergeer: Yes.

The Court: Then let them determine whether that was restricted or general.

Mr. Vergeer: Very well, Your Honor. This, of course, will be tied in with a number of dealings with Attorney Brink and it's for that purpose.

The Court: I understand.

Mr. Vergeer: Q. Now, what were your general instructions with relation to handling of claims?

A. Well, I can settle all material damage losses, material damage loss being a loss that the policyholder himself is involved in by himself, and all property damage loss. I have an unlimited authority insofar as those things are concerned. As far as the personal injury coverage is concerned I have to re-

(Testimony of Edward I. Engel.)

ceive that authority from my superintendent of claims, Mr. Frank O'Connor.

Q. In the course of the first year you were employed by the company did you have occasion to see Mr. Mervin Brink with respect to claims?

A. You mean prior to this accident the case is about?

Q. Yes. A. Yes, sir.

Q. Would you give us some idea as to how many claims you handled with Mr. Brink during that time?

A. I would guess approximately six to eight personal claims in that first year.

Q. And, in the course of that time was there any discussion between you and Mr. Brink as to your authority?

A. There were numerous discussions regarding it.

Q. Numerous discussion. And, did you at any time outline to him what your limitations were?

A. Yes. Mr. Brink, an active plaintiff's attorney—a good attorney—and he was always—

Mr. Gardner: We will object to that question, it's not responsive.

Mr. Cosgrave: Objection.

Mr. Vergeer: We would—

The Court: Of course, the jury isn't particularly interested in any witness' appraisal of any of the attorneys that might be called as witnesses. We can just assume that the witness was acting in good faith when he made the voluntary statement. But,

(Testimony of Edward I. Engel.)

members of the jury, this witness' appraisal of the attorney involved is not a matter of issue in this Court at all.

Mr. Vergeer: Your Honor, I had another matter. Thank you, Your Honor. I would suggest, to avoid confusion, if I may, that the Court limit the objections or any other statements made by opposing counsel to a single attorney.

Mr. Cosgrave: Your Honor, that was inadvertent. We were both speaking at the same time about the same thing.

Mr. Vergeer: Would the Reporter read the last question and answer, please?

The Court: I think perhaps counsel is entitled to have an answer to his question made. To avoid confusion, any feelings about it, I would suggest that the attorney who intends to cross-examine this witness interpose all objections.

Mr. Cosgrave: Yes. We have just determined that, Your Honor.

(Last question read.)

The Witness: Your Honor, I don't know exactly how to phrase so that it isn't objectionable but in any settlement negotiations with attorneys on personal injury cases, personal injury cases are something that fluctuate to a great degree. We get demands and make offers and there is a good deal of horse trading going on insofar as the business is concerned. In fact, that's the way we actually settle them. In the course of these negotiations Mr. Brink

(Testimony of Edward I. Engel.)

would ask me what my authority was insofar as a specific case was concerned——

Mr. Gardner: Your Honor.

The Witness: Is that responsive?

The Court: No. I think that your counsel asked you what your conversations with Mr. Brink were with reference to this case.

Mr. Vergeer: Q. Did you ever outline to Mr. Brink the extent and limitations of your authority?

A. In this particular case here?

Q. Yes. A. Yes.

Q. Prior to this case coming up?

A. Prior to the case being filed, prior to the accident being filed?

Q. Prior to this matter coming up at all.

A. You mean after the accident? [27]

Q. No, sir. I mean prior to anything relating to this matter coming up.

A. Yes. He knew that I was an adjuster and as such my authority was limited and he has been advised.

Mr. Gardner: Your Honor, I think I will have to object to that. He is stating a conclusion as to what he says the other man knew——

The Court: Yes.

Mr. Gardner: ——not as to what he told him.

The Court: Yes. The objection will be sustained and the jury is instructed to disregard the witness' statement that "he knew what my instructions were."

The Witness: Well, I told Mr. Brink what my

(Testimony of Edward I. Engel.)

authority was in various cases. We had a lot of conversations during that year's time.

Mr. Vergeer: Just answer the question, Mr. Engel.

Q. Now, when did you first discuss this claim of Mr. Oslund against Mr. Brock or the Brock accident with Mr. Brink?

A. The same day that I took the Court Reporter's statement from Mr. Brock.

Q. And, at that time what was your conversation with Mr. Brink?

A. Well, I went over to his office and he was there and so I went in to see him and I walked in the door and told him that I had just taken a Court Reporter's statement from Mr. Brock and Mr. Brink said, "That son-of-a-gun, I told him not to talk to anybody about it." So, we sat down and talked a little bit about the accident and he broke out an insurance policy which he had, I think it was a policy on his own personal car, was looking at it, and asked me questions about the Omnibus clause of the insurance policy, permits of use provision.

Q. Yes. And, did you have any discussion with him at that time as to whether or not the State Farm Mutual policy which had been issued to Mr. Lafky would be applicable in Mr. Brock's favor?

A. I told him that it was my impression that Mr. Brock was in the course of his garage business at the time that the accident occurred and that if

(Testimony of Edward I. Engel.)

this were so that there would be no coverage with State Farm Insurance Company.

Q. Did you tell Mr. Brink that the State Farm Mutual Insurance Company would not cover Mr. Brock? A. No.

Q. When did you again see Mr. Brink, if you recall?

A. I saw Mr. Brink—well, I have seen him a number of times since that initial conversation. I just saw him here two weeks ago on another case. They have a large number of automobile accident cases in their office and the next time that I saw him was perhaps two weeks after that initial conversation.

Q. Well, let me ask it this way: When did you next discuss the Brock accident with him?

A. I think about two weeks after that initial conversation I talked to him about it again briefly.

Q. And, what was the gist or the nature of that conversation?

A. Well, he said that he was representing Mr. Brock or he told me that prior to that time and about all we talked about at that time was the fact that he was mad at Mr. Gardner for—

Q. Well, just leave that portion of the conversation out.

A. That was about the size of the conversation so far as my recollection is concerned.

Q. Well, when, if any time, did you next discuss the question of whether there would be coverage for Mr. Brock under the State Farm Mutual policy?

(Testimony of Edward I. Engel.)

A. I don't recall talking to him specifically about that. I recall settling a number of other cases with him after that time, but as Mr. Cosgrave read from my memos, that, to me, it seemed like Mr. Brink was avoiding the subject because he didn't say anything about it.

Q. Now, did you, Mr. Engel, ever have a discussion with Mr. Brink—I mean now within two, three, or four months of the time of the accident—did you have any discussion with Mr. Brink as to your authority to either admit or deny coverage under the policy?

A. I advised Mr. Brink immediately that I had no authority to deny coverage on behalf of the company.

Q. Did you at any other time discuss whether the company would—and again I am referring within two, three, or four months after the accident—let's say four months or at any time prior to the trial of the case of Oslund against Brock—did you ever tell him that the company would not cover Mr. Brock under the policy issued to Mr. Lafky?

A. No. No. I never denied coverage on behalf of the company. I attempted to take a—as I recall now I attempted to take a non-waiver agreement from Mr. Brink on our first meeting advising him that there was a policy defense and that the company reserved all rights to investigate the accident and the right to be advised of what was going on.

Q. Yes. And, the company reserved its defense as such it might be under the policy?

(Testimony of Edward I. Engel.)

A. Right.

Mr. Gardner: I object to that, Your Honor. The question asked for a conclusion, "And, the company reserved its" rights to this, that, or the other.

The Court: May I have the question read, please?

(Last question and answer read.)

The Court: I think that the final question assumes something "And, the company reserved" assumed something the witness has not testified to.

Mr. Vergeer: Your Honor, I didn't mean to imply the conclusion but merely had reference to this conversation and not to the conversation as a conclusion which is pretty hard to separate at that point, I realize.

The Court: There was a statement, members of the jury, by counsel "And, the company made the reservation," or words to that effect. I think that was just the attorney's anticipation of the conversation with the witness. There has been no testimony that there was any reservation of any kind between the parties.

Mr. Vergeer: Very well.

The Court: So, I think they understand now.

Mr. Vergeer: Q. Now, what, if any, conversation did you have with Mr. Brink as to this policy defense?

A. I advised Mr. Brink that Mr. Brock was a garage owner, that he had taken——

Mr. Gardner: Your Honor, I think I would object to this. He has asked him what conversations,

(Testimony of Edward I. Engel.)

if any, and, as I understand, for the conversations to become material you have got to lay the time and the place and the date. We have no way of knowing what conversation he is thinking about. We have no way of checking it when he doesn't set any time or place or what the conversation was.

Mr. Vergeer: Your Honor——

The Court: Could you supply the information?

Mr. Vergeer: This is not an impeaching question.

The Court: I understand that. I think that there has been testimony by the witness, Brink, that he had several conversations, and he gave testimony as to what transpired. This witness certainly can give his version but I do believe counsel is entitled to know what conversation you are talking about.

Mr. Vergeer: Well, if they can be segregated.

The Court: If they can't, they can't.

Mr. Vergeer: Will the Reporter read the question?

(Last question read.)

Mr. Vergeer: Q. And, if you can would you please add the approximate time when this conversation took place?

A. The afternoon; I believe it was May 27, 1953, which is—if that is the same date that I took the Court Reporter's statement from Mr. Brock which has been entered as an exhibit, I believe. That date may be a few days off. Anyway, immediately after taking the Court Reporter's statement from Mr. Brock I went to Attorney Brink's office,

(Testimony of Edward I. Engel.)

advised him that there was a policy question insofar as the accident is concerned due to the occupation and the use of the vehicle by Mr. Brock. I attempted to take a standard form non-waiver agreement from Mr. Brink to the effect that the company reserved the right—pardon me. It starts out advising them that there was a policy question and that the company reserved its rights to continue investigating, attempting to settle, to defend any lawsuit, to adjust or handle any claim without waiving any of its rights. Now, Mr. Brink refused to agree to that and he didn't want to sign it and so we argued around about it for a while and I told him also at that time that I had no authority to deny coverage and the company hadn't made up its mind as to whether or not they were going to deny coverage on it.

Mr. Vergeer: That's all. You may inquire.

Cross Examination

By Mr. Gardner:

Q. Now, Mr. Engel, at the present time, as I understand it, you are an attorney?

A. That is right. I am newly admitted as a member of the Oregon Bar.

Q. And, during the time that you were working on that Brock accident you were a third-year law student or fourth year?

A. No. I was a second-year law student.

Q. Now, Mr. Engel, did you have any conver-

(Testimony of Edward I. Engel.)

sations in the course of your investigation with Mr. Lafky?

A. Yes, I had several occasions—several conversations with Mr. Lafky.

Q. And, when did you have the first?

A. I think it was either a day or two after I had taken the Court Reporter's statement from Mr. Brock. Now, I am kind of using that as a guide. That's insofar as dates are concerned.

Mr. Vergeer: If the Court please, this, of course, is not cross-examination. This is now counsel making this witness his witness, I believe, and is entering into a matter not covered in the direct examination and I believe that counsel has closed his case. Under these circumstances I think it would be improper to prolong your inquiry.

The Court: May I have the question?

(Last question read.)

The Court: There wasn't any direct testimony concerning the conversation of this witness with Mr. Lafky.

Mr. Gardner: Q. Well, Mr. Engel, did you deny coverage on the part of your company?

A. No.

Q. Mr. Engel, do you recall your deposition having been taken in the State Court on August 17, 1954, in the office of your attorney, Duane Vergeer?

A. I recall that deposition being taken.

Q. Do you recall a question being asked you—

Mr. Vergeer: What page?

Mr. Gardner: Page 17.

(Testimony of Edward I. Engel.)

Mr. Vergeer: 17.

Mr. Gardner: Q. "Q. Do you remember having a conversation with Mr. Lafky? I can't lay the exact time in which you told him you would defend if an action was brought against him, but you would not defend Brock because you did not believe your policy covered Brock? A. It was my opinion, as I said before, from the outset involving this accident"—

Mr. Vergeer: If the Court please.

The Court: Let counsel finish his question.

Mr. Vergeer: Very well.

Mr. Gardner: Q. "A. —regarding this accident that Brock would not be covered in my opinion and I also advised Mr. Lafky of that, that I didn't think Brock would be covered. However, I did tell Mr. Lafky in any event he was our named insured and we would cover him in case of a lawsuit being brought against him."

A. That—

Mr. Vergeer: Now, just a moment, please.

The Court: Just a moment.

Mr. Vergeer: My objection will be the same.

The Court: This witness testified he never denied liability on behalf of the company.

Mr. Vergeer: I beg your pardon but, Your Honor, denial of liability to have any probative value in this case or be at all material to the issues in this case would have to be made to either Mr. Brink or Mr. Brock otherwise it would have no effect whatsoever.

(Testimony of Edward I. Engel.)

The Court: May I have——

Mr. Vergeer: I will withdraw my objection. It's all right.

The Witness: I don't believe you finished your question.

Mr. Gardner: Well, would you read back the last of what I said?

(Last quoted answer was read.)

Mr. Gardner: Q. Now, continuing from the deposition in the State Court, the next question asked you: "When did you tell him that? A. I think I told him several times. Q. When do you recall the first time? A. The first time I talked to him? Q. What about the second time? A. I might have mentioned it again. We discussed the problem several times. I know I referred to that the first time I talked to him. That is the only definite date I can recall. Q. Do you recall any of the other times? A. That is, a problem or question that arose and we had several conversations. I would say it arose most of the time I talked to him. We probably had three or four different conversations in the period of six weeks after the accident and, then, I didn't see him for a long time after that particular point." Do you know what date the Complaint was filed in the Circuit Court case of Oslund versus Brock?

A. Is this a different question or are you continuing?

Q. This is a different question.

A. You didn't ask me to answer the first one.

(Testimony of Edward I. Engel.)

Q. I did not ask you that on the deposition. This is leaving the deposition and I am now asking you the question do you know the date the Complaint was filed in the Circuit Court case in Washington County of Oslund versus Brock?

A. No.

Q. Mr. Engel, did you just testify a moment ago that at no time prior to the time the case was filed or tried that you had not denied coverage to Mr. Brink?

A. I testified, that is correct. I testified that I did not deny coverage at any time to Mr. Brink.

Q. Didn't you also just before the Complaint or lawsuit was filed or the judgment?

A. I was referring to the current lawsuit that we are trying here now today which Mr. Vergeer had requested me to answer to the one that we are involved in.

Q. Now, Mr. Engel, referring back to your question that you did not deny coverage at any time, and I am quoting from page 31—

Mr. Vergeer: What deposition?

Mr. Gardner: That's the Federal deposition.

Mr. Gardner: Q. "Q. Do you recall whether or not the first time you contacted Mr. Gardner you discussed the question of whether or not State Farm covered the accident? A. I think that that topic came up in our conversation. Q. Do you recall whether or not you told Mr. Gardner that there was a policy defense? A. I think I did tell Mr. Gardner that in my opinion there was a policy defense.

(Testimony of Edward I. Engel.)

Q. Do you recall whether or not you told him that the policy defense was that—was the—the accident had happened allegedly as a result of the operation of the garage and there was an exclusion to that effect? A. I believe I did tell Mr. Gardner that in my opinion this loss was not covered under the policy.” Did you make that statement?

A. I advised Mr. Gardner that my opinion due to the apparent use of the vehicle as the facts were reported to us at the time the accident occurred that in my opinion there was no coverage.

Mr. Gardner: I think that’s all of this witness, Your Honor.

The Court: Redirect.

Redirect Examination

By Mr. Vergeer:

Q. By Mr. Engel, referring again to the deposition taken in the State Court concerning which you were first asked, page 20, were you asked the following questions at that same time very shortly thereafter and did you give the following answers: “Ed, did you ever tell Mr. Lafky, tell or inform him in any manner at all or Mr. Brink as Mr. Lafky’s attorney that the company could not cover Mr. Lafky in this loss or would not defend him? A. I did not advise either” Mr. Brink—or, “Mr. Lafky or Mr. Brink that the company would refuse to defend Mr. Lafky if suit were filed against him.” Then there is some redirect examination by Mr. Gardner. “Q. Just one other question. When did

(Testimony of Edward I. Engel.)

you tell Brink and Brock that you had no authority to deny coverage? A. Mr. Vergeer asked me if I had told—I did not tell Brock that because I did not discuss the coverage question with Mr. Brock whatsoever. The minute I found out he was represented by counsel——

Mr. Vergeer: Pardon me. Did you ever tell Mr. Lafky—or, I misstated that. I meant to use the word ‘Lafky,’ not the word ‘Brock.’ I know Mr. Engel had no discussion with Mr. Lafky except the one reported discussion. Mr. Gardner: You

mean Mr. Brock? Mr. Vergeer: The one reported discussion with Mr. Brock is the only one. My question was whether he advised Mr. Lafky and Mr. Brink of this matter. Q. When did you advise Mr. Brink that you had no authority to deny coverage as to Mr. Lafky or Mr. Brock? A. At

the outset. The question came up in our initial conversation. Q. When was that? A. Sev-

eral days after the accident happened. It was the same day I took the reporter’s statement. I do not recall the exact day.” Were those questions and answers given at that time?

A. Yes, sir.

Mr. Vergeer: That’s all.

The Court: That’s all, sir. You may step down.

Judge’s Ruling in Plaintiff’s Motion for New Trial

The Court: Well, of course, our impressions immediately following the trial, naturally, would be

somewhat better than they are at this moment. But, after having heard the arguments of counsel it has pointed up the impressions of memory.

As we were saying immediately following the trial you would have the feeling of the trial, the sense of the trial is still with you, you are conscious of the rulings that you have made. Reflecting on them during the course of the trial, awaiting the return of the verdict, you naturally search the state of your mind with the matter and then following the receipt of any verdict you have an impression one way or the other. And, I am frank to say at the end of receiving the verdict I had the impression that both parties had had a fair trial without having any particular feelings about the way it went. I can well imagine that any disappointed litigant feels that an injustice has been had.

On the other hands there are two questions involved, that is, fundamental questions involved in the trial, one which was by the nature of a forfeiture, and the other was really to the merits of the matter. The failure of Brock to forward the Summons and that sort of thing are, in my mind, in the way of a forfeiture forfeiting whatever rights he may have had by reason of his own action. The question on the merits that were involved was what was the nature of the use of the car at the time of the accident. That went to the very merits. The policy was in effect in determining whether or not liability existed under the policy. I

think that I would have had some doubt in my mind as to what the course of the action of the jury was if we did not have the special interrogatory that we had. When the jury stated an answer "Yes," as to "Was the car being used in the operation of a garage," answered in the affirmative to that question, that by the very nature of things showed that the jury had gone to a determination of that question of merit and under the instructions to them they would never have gotten to that question of the merits or liability if they had determined that there had not been a waiver of the provision of the policy by the insurance company.

So, that must necessarily mean to us that they concluded under the evidence, first, as to the instruction that there was a waiver of the notice provision by the insurance company otherwise they would have not followed the instruction of the Court and even gone to the question of liability.

So, it's conclusive that they did go to the question of liability and any error that might have been submitted by the Court with reference to the waiver question is a question so far as this jury is concerned. Now, it's true the defendant had the burden of proof in connection with the use of that car and the jury was so instructed, but bear in mind they are entitled to the benefit of the plaintiff's evidence and it's in their benefit as much as the evidence directly produced by them in their case in chief.

Now, one of the fundamental questions is the

weight of any evidence and it was for the jury to determine the credibility and the effect and the weight of the evidence of the various witnesses. It was the position of the defendant throughout the trial that all of these witnesses were interested parties because they had an interest in the outcome of the cause and, most certainly, that was true with reference to Brock. If the plaintiff prevailed he was relieved of a very burdensome judgment. If the plaintiff did not prevail then he had a grievous verdict against him that was to him. So, he had a very high interest in the case and the defendant is entitled to his demeanor on the stand, his conduct in the courtroom, and in the presence of the jury and the way and mode of his testimony, and most certainly it would be substantive evidence so far as the credibility of the witness is concerned, the showing of any impeaching question. It may be that it wouldn't be substantive evidence of that fact itself but it certainly would tend to destroy the effect and credibility in whether or not the jury would believe any given witness by reason of prior contradictory statements made under facts and circumstances to be weighed by the jury. So, I can understand plaintiff is aggrieved but on the other hand all that the Court can say is that it's going to be unjust, any verdict is going to be unjust until the plaintiff prevails and the Court cannot in its conscience make that determination. And, after hearing the able statements of counsel in refreshing my memory I will abide by the decision. The motion will be denied.

Mr. Gardner: Could we have an exception to the ruling?

The Court: Yes, indeed you may.

[Endorsed]: Filed Nov. 28, 1955.

[Endorsed]: No. 14981. United States Court of Appeals for the Ninth Circuit. H. R. Oslund, Appellant, vs. State Farm Mutual Automobile Insurance Co., a corporation, Appellee. Transcript of Record. Appeal from the United States District Court for the District of Oregon.

Filed: December 20, 1955.

/s/ PAUL P. O'BRIEN,

Clerk of the United States Court of Appeals for the Ninth Circuit.

In the United States Court of Appeals
for the Ninth Circuit

No. 14981

H. R. OSLUND, Appellant,

vs.

STATE FARM MUTUAL AUTOMOBILE INSURANCE COMPANY, a corporation,
Appellee.

APPELLANT'S DESIGNATION OF RECORD
AND STATEMENT OF POINTS

Comes now Appellant and adopts Appellant's designation of contents of record on appeal and Ap-

pellants statement of points as appears in type written transcript of record heretofore docketed by Appellant.

MAGUIRE, SHIELDS, MORRIS &
 BAILEY,
 GARDNER & REEDER,
 /s/ By JAMES K. GARDNER,
 Of Attorneys for Appellant

Certificate of Service attached.

[Endorsed]: Filed December 30, 1955. Paul P. O'Brien, Clerk.

[Title of U. S. Court of Appeals and Cause.]

APPELLEE'S DESIGNATION OF ADDITIONAL CONTENTS OF RECORD

Comes now the Appellee and adopts the Appellee's Designation of Additional Contents of Record on Appeal, as heretofore designated by the Appellee in the typewritten transcript of record heretofore adopted, being the Court's entire instructions to the jury.

VERGEER & SAMUELS,
 /s/ By DUANE VERGEER,
 Of Attorneys for Appellee

[Endorsed]: Filed January 13, 1956. Paul P. O'Brien, Clerk.

14981

NO. 14781

United States
COURT OF APPEALS
for the Ninth Circuit

H. R. OSLUND,

Appellant,

vs.

STATE FARM MUTUAL AUTOMOBILE INSUR-
ANCE CO., a corporation,

Appellee.

APPELLANT'S BRIEF

*Appeal from Final Judgment of the United States
District Court for the District of Oregon*

HON. WILLIAM G. EAST, Judge.

FILED

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NO. 14781

United States
COURT OF APPEALS
for the Ninth Circuit

H. R. OSLUND,

Appellant,

vs.

STATE FARM MUTUAL AUTOMOBILE INSUR-
ANCE CO., a corporation,

Appellee.

APPELLANT'S BRIEF

*Appeal from Final Judgment of the United States
District Court for the District of Oregon*

HON. WILLIAM G. EAST, Judge.

JURISDICTION

Jurisdiction of the action in the District Court properly attached because the pre-trial order (Tr. 3) alleged diversity of citizenship and amount in controversy under 28 U.S.C.A. Section 1332.

Final judgment in the case, was entered September 28, 1955 (Tr. 14), a motion for new trial was filed October 7, 1955 (Tr. 16), and an order entered October 17, 1955 (Tr. 19), denying motion for new trial. An

appeal was filed November 14, 1955 (Tr. 20). The appeal has been taken in time under Rule 73 (a) F.R.C.P. This court has jurisdiction of the appeal under 28 U.S.C.A. Section 1291.

STATEMENT OF THE CASE

The appellant, H. R. Oslund recovered a judgment against A. L. Brock in the sum of \$19,685.00 for personal injuries arising out of an automobile accident in the State of Oregon on May 22, 1953. At the time of the accident A. L. Brock was operating an automobile belonging to Robert H. Lafky. The appellee carried an automobile liability policy of insurance upon the automobile in the sum of \$10,000 and Robert H. Lafky was the named insured. An action was instituted by the appellant under the omnibus clause of the insurance policy against the appellee on December 2, 1954, in the District Court of Oregon. The appellee claimed that the said A. L. Brock failed to forward suit papers in the original action of Oslund vs. Brock and that the accident arose out of the operation of a garage within the meaning of an exclusion clause of the policy. The appellant claimed that the appellee denied coverage on the grounds that the accident arose out of the operation of a garage thereby excusing the failure of A. L. Brock to forward suit papers.

A brief statement of the undisputed facts at this point may help the court to fully understand the case and the issues involved. A. L. Brock owns and operates a small one man garage near Hillsboro, a small suburb

f the City of Portland, Oregon. He and Robert H. Lafky have been close personal friends for sometime and have driven each others automobile on various occasions. On the early morning of the accident Robert H. Lafky had left his automobile with A. L. Brock for minor tune up. In the early morning A. L. Brock completed the minor tune up. About 2:30 in the afternoon he closed his repair shop and took the Lafky car to go out into the country and get some eggs. On his way back to the garage he had the accident. Previous to this action, appellant had sued Girard Insurance Co., (in state court). Girard who had insured A. L. Brock's private car defended under a garage exclusion clause. Appellant recovered judgment in the sum of \$5,000.00 which had been applied on the \$19,685.00 judgment.

Two issues of fact were raised in the trial of this case: (1) Did the appellee deny coverage on the grounds that the accident arose out of the operation of a garage and thereby excuse A. L. Brock's failure to forward process; (2) Did the accident arise out of the operation of a garage within the meaning of the policy's exclusion?

The jury returned a general verdict for the defendant and a special finding, to-wit:

"Was A. L. Brock at the time of the accident using Mr. Robert H. Lafky's automobile in course of his business as a garage mechanic: Yes."

The appellant filed a motion for a new trial alleging that the jury's verdict was against the clear weight of the evidence (Tr. 16), hence the first issue of law raised "Is there substantial evidence to support the verdict upon the two issues of fact presented."

It was the appellee's theory presented by the trial court's instruction to the jury that at the time of the accident, A. L. Brock was testing the automobile, hence the accident arose out of the operation of the garage. Appellant claims that the only evidence that the car was being tested at the time of the accident was the statement of defendant's exhibit 7 (on pre-trial plaintiff's exhibit 8), the accident report of the witness Robert H. Lafky which was received despite objections of the appellant that it was inadmissible. Appellant raised the further issue in his motion for new trial that exhibit 7 was not substantive evidence if properly admitted as impeachment of witness, Robert H. Lafky of alleged fact that A. L. Brock was testing the automobile at the time of the accident (Tr. 47).

Appellant contends that the defense counsel in arguing the case to the jury went outside the record and claimed as proven facts matters which interjected into the case the prejudicial issue that A. L. Brock was trying to manufacture insurance where there was none.

Specifically appellee's counsel claimed the record proved that A. L. Brock had had a garage policy which had lapsed, that Brock knew it had lapsed, that the appellee's policy did not cover and that Brock's attorney, Mr. Brink had thoroughly informed him of this (Tr. 26). Appellant claims the record does not sustain appellee's counsel's claim. The issue of counsel's improper remarks was raised by objection to them (Tr. 26). The court in effect overruled appellant's objections and the court's error was raised by appellant's motion for new trial (Tr. 16).

Appellant also raised issue of correctness of instructions of court by taking exception (Tr. 11, 72) and also by motion for new trial as will be discussed later (Tr. 16).

STATEMENT OF APPELLANT'S SPECIFICATION OF ERROR

(1) That the general verdict for the defendant and against the plaintiff and the special interrogatory are against the clear weight of the evidence in that it conclusively appears from the evidence that the defendant knew of the suit and denied coverage; and that there was no substantial evidence that the accident arose out of the operation of a garage.

(2) That the Court erred in admitting defendant's exhibit 7 over the objection of the plaintiff.

At the trial of the case, the appellant's counsel objected to the introduction of appellee's exhibit 7 as follows:

"MR. GARDNER: If it please the Court, I would object to the introduction to this on the grounds that there is no basis laid for it. I can't see that it's relevant to the witness' testimony and I don't know whether they are claiming it for impeachment purposes or not." (Tr. 48)

Appellee's counsel then claimed:

"MR. VERGEER.: If the Court will examine the document it relates to the conversation and has a bearing upon the conversation between Mr. Brock, the garage man, and Mr. Lafky, and he has testified concerning that conversation and this is further evidence on what the conversation was." (Tr. 48)

Exhibit 7, was the accident report filed May 23, 1953, approximately one and one-half hours after the accident by Robert H. Lafky, with the appellee. Not all of the questions were answered. The report contained question, "Describe how accident or loss occurred." The answer written by appellee's agent and signed by witness, Robert H. Lafky, (not a party to any law suit) said, "I had taken my car to the garage for motor work—in testing car garage owner wrecked it." (Tr. 49)

(3) That there was no substantial evidence that the accident arose out of the operation of a garage and the appellee's exhibit 7 was not substantial evidence, hence the court erred in failing to withdraw said defense from the consideration of the jury.

(4) That the court erred in giving appellee's instruction to the effect that the appellee must have "definitely denied" coverage and that a mere statement of opinion on the part of a representative of the insurance company was not enough to justify a finding that the company had refused coverage, was highly prejudicial to the plaintiff and did not correctly state the law.

"In determining whether or not the insurance company did deny coverage to Mr. Brock it is not enough for you to find that a question of fact admittedly existed between Mr. Brink who was the attorney for Mr. Brock and Mr. Engel the adjuster. As to the use which was being made of the Chrysler automobile at the time of the accident, the mere statement of opinion on the part of the representative of the insurance company is not enough to justify a finding that the company refused coverage. Unless coverage or liability was definitely denied to Mr. Brock by the insurance company at the time prior

to the filing of the action by Mr. Oslund your verdict in the case must be for the defendant. If, on the other hand you find from a preponderance of all of the evidence in the case that the defendant did, acting through its agent, Mr. Engel, definitely deny any liability under the policy to Mr. A. L. Brock during the time of the discussions referred to in the evidence then you should consider the second phase of this case, the second phase being the second question which is raised by the contention of these parties, namely, was the automobile being operated in the course of the operation and management of a garage business." (Tr. 63, 64)

That the above instruction was one given by the court. That appellant excepted to said instruction as follows:

"MR. COSGROVE: Your Honor, the plaintiff will except to the Court's giving of the Defendant's Requested Instruction which begins 'In determining whether the insurance company denied coverage to Mr. Brock it is not enough for you to find that a question of fact admittedly,' and so forth——

THE COURT: Yes.

MR. COSGROVE: ——on the grounds and for the reason that the instruction is argumentative and on the further ground that it does not correctly state the law in that the word 'denied' is preceded by the word 'definitely' and that the law clearly with respect to waiver is that it may be even from conduct. The word 'definitely' makes the instruction argumentative and imposes a burden of proof upon the plaintiff it should not have to sustain." (Tr. 70)

(5) That the court erred in failing to give plaintiff's requested instruction no. 1. That it clearly stated the law and was material to the exclusion defense raised by the defendant and the Court's failure to give it, prejudiced the plaintiff.

That the exception was to failure to give appellant's requested instruction No. 1 which was as follows:

"Since the insurance policy in this case was prepared by the defendant State Farm Insurance Company, its terms are to be construed most strongly against said defendant and in favor of the plaintiff."
(Tr. 11)

That appellant excepted to failure to give said instructions as follows:

"MR. COSGRAVE: All right. The plaintiff would except to the Court's failure to give Plaintiff's Requested Instruction Number 1; the failure to give Plaintiff's Requested Instruction Number 9, Number 13, particularly in view of the Court's using the word 'definitely'; and Instruction Number 14 with respect to estoppel." (Tr. 72)

(6) That the defense counsel made the following statement to the jury, to-wit:

"Mr. Brock was keenly aware of the fact that he was a garage operator and that he had no longer any garage liability coverage. The record shows that his policy had lapsed and he knew about it and he also knew that policy such as this would not be applicable to him. Undoubtedly Mr. Brink had informed him thoroughly on the subject but that is outside of the record. Now there was a discussion between Mr. Engel and Mr. Brink——"
(Objection) (Tr. 26)

There was no evidence in the case to sustain the statement. That it imputed bad faith to Mr. Brock and implied that he was attempting to get coverage which he, in fact, knew he did not have. That the statement was prejudicial, and prevented the plaintiff from obtaining a fair trial.

(7) The court erred in failing to sustain plaintiff's objection to defense counsel's misstatement and the court erred in failing to instruct the jury to disregard it.

ARGUMENT OF CASE

This is an action upon an automobile liability policy under the omnibus clause. The appellant recovered a judgment in the sum of \$19,685.00 for damages arising out of an automobile accident. The judgment was against A. L. Brock, the driver who was driving an automobile owned by Robert H. Lafky, who was insured as well as all other persons driving with his actual permission against injuries arising out of the negligence of the driver. A. L. Brock was driving with the actual permission of Robert H. Lafky. The appellee claimed that it was not served with process. The appellant claimed that the appellee denied liability contending that the accident arose out of the operation of the garage, hence there was a duty to serve appellee with process. The appellee raised the separate defense at trial that the accident arose out of the operation of a garage, hence any liability on their part because of A. L. Brock's negligence was excluded by the garage exclusion contained in the policy.

Point I

There is no substantial evidence to support the verdict.

a—The evidence conclusively established that the defendant between the date of the accident and September 25, 1953, five months before trial, denied coverage

on the grounds the accident arose out of the operation of a garage.

b—Denial of coverage excuses non-compliance with conditions precedent contained in the policy.

Hahn v. Guardian Assurance Co., 23 Ore. 576, 32 Pac. 683.

American Auto Ins. v. Castle et al., 48 Fed. (2d) 523.

Watson v. Pacific Mutual Life Ins. Co., 144 Ore. 413, 21 P. (2d) 201, 25 P. (2d) 162.

c—The burden of proof to prove that an accident is within the meaning of the exclusion clause of the policy is upon the insurer.

Bridal Veil Lumber Co. v. Pacific Coast Casualty Co., 75 Ore. 57, 145 Pac. 671.

29 Am. Jur., Insurance, Sec. 1444.

d—Ambiguity in the contract of insurance is to be construed against the insurer.

Rossier v. Union Auto, Ins. Co., 134 Or. 211, 297 Pac. 498.

Zimmerman v. Union Auto. Ins. Co., 133 Or. 600, 291 Pac. 495.

Nugent v. Union Auto. Ins. Co., 140 Or. 61, 13 Pac. (2d) 343.

e—Evidence offered for impeachment cannot be used as substantive evidence.

State v. Jarvis, 18 Ore. 360, 26 Pac. 302, 23 Am. St. Rep. 141.

Schluter v. Niagara Fire Ins. Co., 124 Ore. 560, 264 Pac. 859.

In re Lambert's Estate, Gourley v. Tate, 166 Ore. 529, 114 Pac. (2d) 125.

58 Am. Jur., Witnesses, Section 770.

The only issues in this case defined for the court prior to the submission of the cause to the jury were:

Did the defendant, State Farm Mutual Automobile Insurance Company, deny coverage to A. L. Brock, driver of the automobile owned by Robert Lafky under the policy issued to Lafky, and was this denial of coverage a waiver or estoppel obviating the necessity of the plaintiff or Brock to serve suit papers on the defendant?

The uncontradicted evidence on this point is as follows:

1—The Home Claims Committee of the State Farm Mutual Automobile Insurance Company denied coverage prior to the 25th day of September, 1953. Plaintiff's exhibit "14". This was in answer to interrogatories made to the company (Tr. 24).

2—This fact was re-affirmed in plaintiff's exhibit "2", dated 10/29/53 (Tr. 24).

3—Witness Ed Engel, Adjuster for State Farm Mutual Automobile Insurance Company testified that on the first meeting with Brock's attorney, he told him in his opinion there was no coverage (Tr. 100), that this was told Mr. Brink after a discussion with the defendant's counsel, Harry Samuels, as shown in plaintiff's exhibit "11" (Tr. 24), and an attempt to get a reservation of rights agreement (Tr. 102). Witness for the plaintiff, Mervin W. Brink testified that on the first meeting with Ed Engle, Mr. Engel told him the company was not on the case and they would not cover (Tr. 78), however, this testimony was contradicted by Ed Engel, who

claims that he had told Brink, his authority to deny coverage was limited and that was merely his opinion (Tr. 100). However, the uncontradicted evidence shows that at the time of taking of the deposition of Brock in the original negligence action, according to witness Mervin W. Brink, Ed Engel was present at the taking of the deposition on 9-5-53 (Tr. 85). Deposition referred to, identified in examination of Brock by appellee (Tr. 85). The reported date September 25, 1953, plaintiff's exhibit 14, shows State Farm Home Claims Committee had denied coverage (Tr. 24).

Witness Mervin Brink testified that because of the statements to him by Engel, he did not serve the suit papers upon State Farm (Tr. 88, 89). The appellee had ample opportunity to defend but even Home Claims Committee denied coverage during this period.

We submit that the evidence on this issue is conclusive. The appellee denied coverage, hence performance by Brock was excused.

The second issue submitted to the jury was: Did the accident arise out of the operation of a garage?

The evidence on this point shows according to the witness A. L. Brock that he and Lafky had had a liberal use of each other's cars (Tr. 30). That on the morning of the accident Lafky left his car there for a slight motor tune up (Tr. 31), that he had tuned the car up around 9:30, he had made a road test of the car and put the same on his lot around 10:00 a.m. That about 2:00 p.m. he changed his clothes, got into Lafky's car and went down to see Ralph Thomison, a friend of his, to buy two

zen eggs. That on the way back, and prior to getting to the shop where he was going to stop, the accident occurred (Tr. 38). The fact that he was going to get eggs was corroborated by the plaintiff's witness Ralph Tomison (Tr. 92). The only evidence contrary to this was offered by the appellee State Farm by way of impeachment. The appellee offered exhibit "2", a statement taken May 27, 1953, in which Brock stated that he didn't test the car (Tr. 39). This was offered to impeach Brock but would not be substantive evidence. The only other evidence that was offered by the appellee was the appellee's exhibit "7" (Tr. 49), which appellant claims is inadmissible (Tr. 48). Exhibit 7 was the accident report made shortly after the accident at the local agent of the appellee (Tr. 56). It was made out by three different persons and was signed by the witness Lafky. On it appears the phrase "I had taken my car to the garage for a motor tune-up—in testing the car the garage owner checked it." (Tr. 49)

In *Schulter vs. Niagara Fire Insurance Company, supra*, the owner of real property sought to reform a policy issued in favor of the vendor of a contract. The plaintiff offered the testimony of Mr. Gitchell to prove that he should have had the policy issued in favor of the plaintiff. Gitchell, at the trial, testified to the contrary and the plaintiff introduced a letter which tended to contradict the testimony offered at the trial. The court said:

"Gitchell was a witness for the plaintiff and practically contradicted these statements which he had made in a letter which was written after the fire

had happened and after he had ceased to be agent for the insurance company; and which was only introduced to contradict his statement upon the witness-stand, and which is not substantive evidence for the plaintiff in this case.”

In *re Lambert's Estate, supra*, an appeal was taken from an order admitting a will to probate. A subscribing witness to the Will testified that the testator did not have testamentary capacity. Proponents offered his affidavit to the contrary. The Supreme Court said:

“At most, the affidavit could be considered herein only upon the question of the credibility of Dr. Jenkins' testimony not as substantive proof of its contents. For these reasons, this affidavit does not in any wise strengthen proponent's affirmative showing upon the question of the testamentary capacity of the decedent Mr. Lambert.”

Despite the fact that the only evidence in case that Brock was testing the car was appellee's exhibit 7, which appellant contends was improperly admitted, the court instructed the jury:

“If, however, you find from a preponderance of all of the evidence in the case that Brock's purpose in driving the car at the time of the accident was for the purpose of making a road test following the repair or adjustment of the car in the course of his garage business or in any incidental use in connection with making such a road test that would necessarily be a part of the operation of his garage business then you are instructed that it would be your duty to return into Court a verdict for the defendant.” (Tr. 67)

We submit that the instruction since it was based upon improperly received evidence magnified the original error and as far as the jury was concerned gave it

the effect of being substantive evidence and made it appear to be relevant when it in fact wasn't even evidence of whether the car was being tested at the time of the accident.

But assuming that there was sufficient evidence to show that the car was being road tested at the time of the accident as well as being used by Brock to get eggs, the evidence would be insufficient to sustain the verdict. The test according to cases of what is meant by the exclusion clause, "arising out of the operation of a garage," the test is:

Was the use at the time of the accident a natural and necessary incident of the operation of the garage and was the garage purpose the producing cause of the trip; and not merely incidental to the producing cause of the trip?

In *Employer's Mutual Casualty Co. v. Fed. Mut. Ins. Co.*, 213 F. (2d) 421, the president of a corporation operating a car dealer and garage establishment was driving a car covered by a policy with a garage exclusion clause, owned by an employee and used because the corporation's pickup was inoperative, on a trip to repair a stalled demonstrator borrowed from the corporation by the president's daughter. It was held that this was purely a personal trip and not necessarily connected with the garage operation so as to come within the exclusion of the policy on that particular car, nor even "in connection with" such operation so as to come within another policy which would cover operations "in connection with" the garage.

In *Barry v. Sill*, 253 N.W. 14, where the employee of a garage borrowed a customer's car with his permission to take a pleasure trip, and a fellow employee requested the employee to pick up a part for the garage at his trip's destination, it was held that the evidence sustained the trial court's finding that the garage purpose was merely incidental to the trip and was not the producing cause and that, therefore, the accident did not arise out of the operation of a garage or repair shop.

The burden of proving the accident arose out of the operation of the garage was upon the appellee. This it did not do.

We submit there is no substantial evidence to sustain the verdict.

Point II

That the court erred in admitting defendant's exhibit

Appellee's exhibit 7, the accident report made to appellee was made not by A. L. Brock, but by appellee's own insured Robert H. Lafky. He was called as a witness by the appellant and was asked:

"When did you first learn of the accident?"

"Some time in the afternoon of that day, I couldn't give you the exact time, when he (Brock) came down to the place where I was staying and told me about it." (Tr. 42)

Nothing more was asked on direct examination regarding that conversation.

On cross-examination appellee asked:

“Q. I think you said you took the car to the garage that morning?

A. (Witness nods head.)

Q. To be worked on?

A. Yes.

Q. And, that thereafter Mr. Brock came and told you about the accident?

A. That's right.

Q. That was the afternoon some time?

A. Some time in the afternoon.

Q. Do you know whether Mr. Brock had seen his attorney before he came to see you?

A. I would have no way of knowing.

Q. Yes. He didn't tell you that he had, did he?

A. No.

Q. What did Mr. Brock tell you at that time when you had that conversation with him?

A. When he first came in and told me about the accident?

Q. Yes?

A. He just came in and I could see he was pretty well shaken up and he called me outside—I was standing there talking to three or four other men—and he called me outside and then he told me that he had banged up the car.

Q. Did he tell you what he was doing at the time?

A. No, sir; I can't remember that he told me exactly what he was doing.

Q. Did he tell you that he was testing it at the time?

A. No, he never did flatly tell me that he was testing the car. I know that somehow I got the idea, possibly, on an assumption of my own that he was ready to return the car to me at the time either that he was on the way to return it to me or that that was what he was doing. I don't believe he actually told me that.

Q. But, it was your impression after your conversation with him that that is what he had been doing?

A. That was just my impression, yes." (Tr. 46, 47)

The accident report, exhibit 7 was then offered and appellant objected as follows:

"If it please the Court, I would object to the introduction to this on the grounds that there is no basis laid for it. I can't see that it's relevant to the witness' testimony and I don't know whether they are claiming it for impeachment purposes or not." (Tr. 48)

Defense counsel claimed that:

"If the Court will examine the document it relates to the conversation and has a bearing upon the conversation between Mr. Brock, the garage man, and Mr. Lafky, and he has testified concerning that conversation and this is further evidence on what the conversation was." (Tr. 49)

Was any basis laid for receiving it? It was not an admission made by a party. Was there any testimony linking it to the conversation, Lafky had had with A. Brock other than appellee's counsel's statement? In fact the testimony elicited by the appellee shows that the witness testified that Brock did not tell witness that he was testing the car at the time of the accident. How then could it become relevant? The issue was whether Brock was testing the car at the time of the accident. Brock said he was not. Lafky said Brock did not tell him that he was. Hence how could an accident report saying Brock was testing the car signed by Lafky who did not know, be relevant? If it was impeaching evidence as to Lafky's testimony it could not become substantive evidence to substantiate the jury's verdict.

Point III

That there was no substantial evidence that the accident arose out of the operation of a garage and the defendant's exhibit 7 was not substantial evidence, hence the court erred in failing to withdraw said defense from the consideration of the jury.

Appellant submits that the failure of the trial court to withdraw the question of exclusion clause from the jury, standing alone would not be grounds for a reversal of the judgment appealed from because it was not properly raised at the trial. However it was urged as a ground for new trial in appellant's motion. The point is raised on this appeal as an aggravation of the error allowed by the appellant in point II and point I. We will not discuss it further because we feel that its relationship to the case has been fully presented in the discussion of points I and II.

Point IV

That the Court erred in giving appellee's instruction:

"Unless coverage or liability was *definitely denied* to Mr. Brock by the insurance company at the time prior to the filing of the action by Mr. Oslund, your verdict in the case must be for the defendant. If, on the other hand you find from a preponderance of all the evidence in the case that the defendant did, acting through its agent Mr. Engel, *definitely deny* any liability under the policy to Mr. A. L. Brock during the time of the discussions referred to in the evidence then you should consider the second phase of this case * * *" (Tr. 64)

Appellant contends that the instruction does not correctly state the law, in that no particular words are necessary nor is it necessary that the denial be in writing, nor is it necessary that the denial be prior to the commencement of the suit.

Point V

That the Court erred in failing to give appellant's requested instruction one, to-wit:

"Since the insurance policy in this case was prepared by the defendant State Farm Insurance Company, its terms are to be construed most strongly against said defendant and in favor of the plaintiff." (Tr. 11)

The exclusion clause arising out of the operation of a garage is not free from ambiguity. The appellee wrote the contract and selected the risks it did not wish to insure.

The instruction correctly stated the law, the appellant was entitled to it, asked for it and the refusal to give it was prejudicial error.

Point VI

Appellee's counsel in argument to the jury claimed as having been proven by the evidence, matters which had not been proven, and which were not even issues in the case.

Appellee's counsel stated:

"Mr. Brock was keenly aware of the fact that he was a garage operator and that he had no longer

any garage liability coverage. The record shows that his policy had lapsed and he knew about it and he also knew that a policy such as this would not be applicable to him. Undoubtedly Mr. Brink had informed him thoroughly on the subject but that is outside of the record. Now there was a discussion between Mr. Engel and Mr. Brink——” (Objection) (Tr. 26)

The major issue in the case was did the accident arise out of the operation of a garage. Appellant submits that the only evidence of insurance in the case is appellee's policy issued on the automobile driven by A. L. Brock and owned by Robert H. Lafky, the named insured. Said policy contains the garage exclusion. The only other insurance disclosed by the record is in the pre-trial order, agreed facts. They disclose that Loyalty Group Insurance Company (Girard Insurance Co. is part of Loyalty Group) insured A. L. Brock in the sum of \$5,000.00. The record further discloses that prior to this action appellant recovered after jury trial judgment against Loyalty Group Insurance in the sum of \$5,000.00 which sum was applied as partial payment against the \$19,685.00 against Brock. This is the same judgment which gives appellant cause of action against appellee on its policy. If Loyalty Group Insurance Company policy were a garage keeper's policy isn't it reasonable to assume appellee would have raised appellant's recovery there as an estoppel here. In other words would it be possible for the same appellant to recover on the same judgment on the same accident on a garage keeper's policy and a policy with a garage keeper's exclusion? From this evidence the court may conclude

that Loyalty Group's policy also had a garage exclusion. Had appellee raised issue in trial that A. L. Brock's policy had lapsed and that he knew that appellee's policy would not cover him, appellant could have introduced the pleadings of the case against Loyalty Group.

If it were true or if there were evidence in this case that Brock once had a garage liability policy and let it lapse and hence at the time of the accident was keenly aware that he had no garage liability coverage and if the jury believed that the record in this case established that, wouldn't the jury be inclined to feel a little ill will toward Brock for in effect driving without insurance. And if the record as appellee's counsel claimed (and we submit does not) showed that Brock knew that appellee's policy did not apply to him, and particular if as appellee's counsel claimed, but which the record does not sustain, that Brock's counsel had thoroughly informed him on the subject, would not the jury be highly indignant and refuse to make the appellee pay Brock's just judgment to the appellant.

At this point in appellee's counsel's argument to the jury appellant objected.

What did appellee's counsel say, did he admit that he was outside of the record on pre-judicial matters.

He said, "I believe the matter (insurance lapsing) was mentioned by a witness." (Tr. 26)

Point VII

The court erred in failing to sustain appellant's objection to appellee's counsel's misstatement and the court erred in failing to instruct the jury to disregard it.

Then what happened? The court had the following part of appellee's counsel's improper argument re-read to the jury:

"The record shows that his policy had lapsed and he knew about it and he also knew that a policy such as this would not be applicable to him. Undoubtedly Mr. Brink had informed him thoroughly on the subject but that's outside of the record. Now, then, there was a discussion between Mr. Engel and Mr. Brink——" (Tr. 26)

Did the court ask the jury to disregard the remark that they were outside the evidence and not to be considered, or that Brock had a policy and appellant sued on it and a jury heard the case and gave appellant judgment.

The court said:

"There was some evidence in the case to the effect that Mr. Brock had insurance of his own and counsel can draw such inferences from that evidence as they desire. The jury understands that counsel is merely drawing his inference and analysis of the evidence." (Tr. 26)

At this point did the jury understand that there was *no evidence* of a garage policy, that there was *no evidence* that Brock had once had a garage liability insurance coverage but that it had lapsed and that he knew that it had lapsed? Did the jury understand that there

was *no evidence* that Brock knew that a policy such as the appellee's would not be applicable to him? Did the jury understand that there was *no evidence* his attorney Mr. Brink had informed him thoroughly on the subject?

At this point did the jury understand that appellee and appellant had agreed by pre-trial order that Loyalty Group Insurance Company had been sued by appellant on their policy. The same policy the trial judge referred to:

"There was some evidence to the effect that Mr. Brock had insurance of his own" (Tr. 26).

That another jury had awarded a judgment against the other insurance company on the same type of exclusion clause.

If the jury did not so understand can the appellate court say appellant had a fair trial. That the trial judge did not commit prejudicial error. The motion for new trial (Tr. 16) discloses this matter was brought to his attention. His comments on denying motion for new trial do not disclose that he even considered it (Tr. 111).

Improper argument of counsel constitutes reversible error.

In *Zimmerle v. Childers*, 1913, 67 Ore. 465 (136 Pac. 349), the plaintiff sued the sheriff to replevin property sold under execution claiming that the plaintiff was the owner under a bill of sale executed prior to the writ. Plaintiff's counsel in argument claimed the bill of sale had been recorded, that judgment debtor though not a

party was the real party in interest and that the bill of sale having been recorded was evidence to all the world of plaintiff's good faith and that the sheriff had a bond to cover such wrongful sales. There was no evidence that the bill of sale had been recorded.

The court said:

“The trial of a hotly contested lawsuit is a battle, and able lawyers with good intentions sometimes, out of zeal for their client's success, overstep the lawful bounds of their privileges, as counsel, to the injury of the opposite party. When they do so, it is the duty of the trial courts to stop them and constrain them to keep within the limits of their privileges. When objections are made to improper remarks by counsel, in their addresses to juries, and the courts overrule the objections, and permit counsel to go on with improper statements, such action is reversible error, unless it can be seen by the appellate court that the adverse party was not injured by such remarks.

“As a general rule, counsel in argument must confine themselves to the facts brought in evidence. Thus, it is error, and cause for a new trial to permit counsel, over proper objections and exceptions, to state and comment upon facts pertinent to the issue, but not in evidence. So it is improper for counsel to refer to facts not pertinent to the issue, but calculated to prejudice the case to the injury of the opposite party.”

The court further said:

“The remarks of the plaintiff's counsel, over the objection and exception of the defendant, concerning the pretended recording of said bill of sale, were error, also. Trial courts are clothed with ample power to prevent counsel's arguing to jurors matters not within the issues, or not within the evidence, and they should not hesitate to use this power, and thus safeguard the rights of litigants.”

In *New York C. R. Co. v. Johnson*, 279 U.S. 310, 73 L. Ed. 706, 49 S. Ct. 300, the plaintiff sued and recovered for personal injuries. On cross-examination defense counsel brought out fact that plaintiff's doctors gave treatment usually given for syphilis. He asked other questions to show, had favorable answers been received that she might have had syphilis. The answers given showed that she did not. On closing argument defense counsel disclaimed any belief she had syphilis and any purpose to show that she had the disease. Plaintiff's counsel argued.

"Gentlemen of the jury, they would charge her with a disease which would brand her as bad as a leper and exclude her from the society of decent people. That is the kind of a defense that is in this case, and I resent it. I resent the New York Central coming into this town and saying that that girl has the syphilis and trying to make this jury believe that she has the syphilis.

"She will be a misery to herself; every time she attempts to take a step and is unable to do so, she suffers mental anguish; every time she sees people watching her, and knowing what she is doing, she suffers mental anguish. And gentlemen, it is sought to say that that is the result of syphilis. Syphilis, one of the most—the worst disease that is known in human history; a disease that can never be freed from the body; a disease that is worse than leprosy. That is the defense in this case. And, gentlemen, with not one, not one scintilla of evidence in this case to justify it."

The Circuit Court of Appeals reversed judgment and plaintiff obtained writ of certiorari.

The Supreme Court held that plaintiff's argument not sustained by evidence. But Supreme Court of United

States apparently rested their decision in reversing judgment and granting new trial upon different grounds than the Circuit Court. And in effect said the defendant had a right to show by cross-examination that injuries did not result from the accident but could have resulted from syphilis. But since the evidence disclosed that they did not, it was error to argue that evidence disclosed a purpose on the part of the defense counsel to defame injured person, since that was not an issue.

The Supreme Court did say:

“The state, whose interest it is the duty of court and counsel alike to uphold, is concerned that every litigation be fairly and impartially conducted and that verdicts of juries be rendered only on the issues made by the pleadings and the evidence. The public interest requires that the court of its own motion, as is its power and duty, protect suitors in their right to a verdict uninfluenced by the appeals of counsel to passion or prejudice. See *Union P. R. Co. v. Field*, 69 C.C.A. 536, 137 Fed. 14, 15; *Brown v. Swineford*, 44 Wis. 282, 293, 28 Am. Rep. 582. Where such paramount considerations are involved, the failure of counsel to particularize an exception will not preclude this court from correcting the error. *Brasfield v. United States*, 272 U.S. 448, 450, 71 L. Ed. 345, 346, 47 Sup. Ct. Rep. 135.”

Appellant contends it was reversible error for appellee's counsel to argue and for trial court to allow argument of matters not in issue, i.e. alleged lapse of insurance, alleged knowledge of Brock that appellee's policy did not cover him, alleged briefing by Brock's attorney before interview by appellee's agent that appellee's policy did not cover him and implication that Brock was trying to create insurance coverage on the part of appellee

where none existed. Appellant reiterates these matters contended as fact by appellee in closing argument were not issues, and were not sustained by evidence and prevented appellant from having a fair trial.

Judge Learned Hand aptly summarized the problem in *Brown v. Walter*, 62 F. 2d 798:

“He argued with much warmth that the whole defense had been fabricated by the insurer—transparently veiled by such provocative phrases as an ‘unseen hand,’ and an ‘unseen force,’ and the like. This had not the slightest support in the evidence; it was unfair to the last degree. Nobody can read the summation without being satisfied that the real issues were being suppressed, and the picture substituted of an alien and malevolent corporation, lurking in the background and contriving perjurious defense. A judge, at least in a federal court, is more than a moderator; he is affirmatively charged with securing a fair trial, and he must intervene *sua sponte* to that end, when necessary. It is not always enough that the other side does not protest; often the protest will only serve to emphasize the evil. Justice does not depend upon legal dialectics so much as upon the atmosphere of the court room, and that in the end depends primarily upon the judge.”

CONCLUSION

Appellant concludes that the admissible evidence does not sustain the verdict. That the improper remarks of appellee's counsel and the failure of the trial court to strike them or attempt to offset them necessitates a new trial.

Respectfully submitted,

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No. 14,781

United States
COURT OF APPEALS
for the Ninth Circuit

H. R. OSLUND,

Appellant,

vs.

STATE FARM MUTUAL AUTOMOBILE INSUR-
ANCE CO., a corporation,

Appellee.

APPELLEE'S ANSWER BRIEF

*Appeal from Final Judgment of the United States
District Court for the District of Oregon*

HON. WILLIAM G. EAST, Judge.

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United States
COURT OF APPEALS
for the Ninth Circuit

I. R. OSLUND,

Appellant,

vs.

STATE FARM MUTUAL AUTOMOBILE INSUR-
ANCE CO., a corporation,

Appellee.

APPELLEE'S ANSWER BRIEF

*Appeal from Final Judgment of the United States
District Court for the District of Oregon*

HON. WILLIAM G. EAST, Judge.

ANSWER TO POINT NO. I

**The Court properly submitted the within cause
to the jury on both questions.**

As there was substantial evidence on any issue to be
determined, the Court was under a duty to submit such
issues to the jury.

United States vs. Bemis, 107 F. 2d 894.

It is obvious under the instructions delivered to the jury by the trial court that there were two questions to be resolved, to-wit: (1) Was there a denial of coverage by the appellee to A. L. Brock? and (2) Was Brock operating the automobile at the time of the accident in the course of his garage business?

An examination of the record of course is necessary to determine the sufficiency of the evidence on these two points. In regard to the coverage question it is the position of the appellee that the testimony of witness Edward I. Engel, an adjuster for the appellee, is sufficient to raise the question as to whether there was in fact a denial of coverage which would excuse performance on the part of Brock in tendering the suit papers to the appellee. The attention of the Court is invited to page 101 of the transcript of record wherein the following testimony appears:

* * * * *

(Edward I. Engel):

“Q. Did you tell Mr. Brink that the State Farm Mutual Insurance Company would not cover Mr. Brock?

A. No.”

* * * * *

and on page 102 of the transcript the following testimony appears:

“Q. Now, did, Mr. Engel, ever have a discussion with Mr. Brink—I mean now within two, three, or four months of the time of the accident—did you have any discussion with Mr. Brink as to your authority to either admit or deny coverage under the policy?

A. I advised Mr. Brink immediately that I had

no authority to deny coverage on behalf of the company.

Q. Did you at any time discuss whether the company would—and again I am referring within two, three, or four months after the accident—let's say four months or at any time prior to the trial of the case of Oslund against Brock—did you ever tell him that the company would not cover Mr. Brock under the policy issued to Mr. Lafky?

A. No. No. I never denied coverage on behalf of the company. I attempted to take a—as I recall now I attempted to take a non-waiver agreement from Mr. Brink on our first meeting advising him that there was a policy defense and that the company reserved all rights to investigate the accident and the right to be advised of what was going on.”

* * * * *

There is no contention on the part of the appellee that this was the only testimony offered on the question of denial of coverage. It is simply the position of the appellee that there was evidence pertinent to this issue which evidence was substantial and which made out a proper jury question in this regard.

As to the second question, to-wit: Was the motor vehicle at the time of the accident being operated in the course of the garage business of Brock?—the attention of the Court is invited to the following testimony, which is independent of defendant's Exhibit 7 referred to in the appellant's Brief (p. 16 et seq.):

(1) A. L. Brock, the witness called by appellant testified that on the day in question he had the vehicle in his possession because he was going to do a motor tune-up in his shop in Hillsboro (Tr. 31).

(2) Brock also testified that it was a normal and necessary part of the operation of a garage to make a road test of an automobile when such work had been performed on the car (Tr. 37).

(3) Brock further testified that he did in fact make a road test of this vehicle (Tr. 31, 35, 36, 37).

(4) In addition to the foregoing the witness testified that his own vehicle was available and on the lot on the same day (Tr. 37).

In addition to the direct testimony given, questions were asked based upon prior depositions taken of the witness which cast grave doubt as to whether the road test was made in the morning or at the time of the accident (Tr. 34-37).

After analyzing the testimony of this witness who had been called by the appellant it becomes abundantly clear that the jury could readily infer from all of the testimony that at the time of the accident he was in fact making the trip for a road test and that any other purpose was only incidental. This would be sufficient to sustain the finding by the jury, and would certainly constitute substantial evidence.

The test, as laid down by this Court, appears in the case of *United States vs. Bemis*, 107 F. 2d 894, 897 wherein Circuit Judge Garrecht made the following statement:

“* * * It is sufficient for the submission if the evidence be of such a character that reasonable men might reach different conclusions thereon.”
Cases cited.

Appellee agrees with the theory that the burden was on the appellee to prove the affirmative defense of non-coverage and submits that the burden was properly carried and that the Court properly instructed the jury in this regard (Tr. 66-69).

There of course is no question of ambiguity in the contract of insurance; hence, the statement in that regard by the appellant is abstract.

We also do not disagree that evidence offered for impeachment should not be used for substantive evidence. As is pointed out earlier in this argument, there was substantial evidence on the question of the operation of the car in the garage business independent of defendant's Exhibit No. 7. Hence this position of the appellant also become abstract.

In regard to the cases cited on pages 15 and 16 of the appellant's brief, the attention of the Court is invited to the case of *Berry vs. Travelers Ins. Co.*, 118 N. J. L. 571, 194 A. 72. In this case a garage repairman was driving a dairy truck from the dairy to the garage to inspect and/or repair the vehicle, and also on the trip was delivering ice cream from the dairy to his sister, at which time an accident occurred. In sustaining the position of the insurer the Court held that this was under the garage exclusion clause.

It should be noted that at no time did the appellant move the court either orally or by way of requested instruction for an order taking away the question of the operation of the vehicle under the garage exclusion pro-

vision. This matter was only brought up subsequent to the entry of the judgment and also upon this appeal.

In considering this assignment of error, it is well to note that the special finding by the jury that the vehicle was being used in the course of the garage operation clearly precludes any further consideration of the question of waiver and the communication of the denial of coverage. The determination that the exclusion applied completely renders moot the secondary question of the right of the appellee to claim the policy defense for failure of the insured to forward the suit papers.

ANSWER TO POINT NO. II

No error was committed by the Court in admitting defendant's Exhibit No. 7.

It appears to be the position of the appellant that the exhibit should not have been received for substantive purposes. With this proposition the appellee has no quarrel; however, there appears to be no dispute between the parties that the same is a proper impeaching document introduced on cross-examination of the witness and germane to a line of direct examination. The statement quoted on page 18 of the appellant's brief of the defense counsel fairly indicates that the purpose of the exhibit was directed to impeachment of the testimony previously given by the witness.

ANSWER TO POINT III

The trial court did not err in submitting the question of the garage exclusion operation to the jury.

Appellee agrees with the appellant that this matter was not properly raised at the trial of the case (App. r., p. 19). There was no request to take the matter from the consideration of the jury or to instruct the jury specifically on this point. The propriety of the evidence in this regard has been fully discussed, supra, and further discussion at this point would be merely repetitious.

ANSWER TO POINT IV

The court did not err in giving the instruction as complained of by appellant.

It first should be noted that this assignment of error is also moot because of the special finding by the jury that the vehicle was being operated in the course of Brock's business as a garage mechanic. However, were that not the case appellee submits that the instruction was not erroneous as claimed by the appellant.

Appellant merely states in his discussion that the instruction does not state the law "in that no particular words are necessary, nor is it necessary the denial be in writing, nor is it necessary that the denial be prior to the commencement of the suit."

The first part of this complaint appears to be entirely specious because the instruction does not suggest any particular words nor that the denial be in writing. It is apparent that appellant is complaining of the use of the word "definitely" which can only in its fair interpretation can mean "unmistakably." Smith, Administratrix vs. Industrial Hospital Assn., 194 Ore. 525, 536, 242 P. 2d 592. This of course does not preclude any manner of transmission of the denial.

As to what appears to be the last part of this objection it of course was mandatory that the party forward the suit papers to the Company when they were received unless there had been a denial. That, of course, is what the instruction sets forth and certainly no one can complain that this was erroneous.

ANSWER TO POINT V

The court did not err in failing to give the appellant's requested instruction No. I.

The foregoing instruction is patently abstract inasmuch as no question of an ambiguity is presented.

ANSWER TO POINTS VI and VII

Nothing prejudicial occurred due to statement of appellee's counsel (Tr. 26).

It becomes apparent from reading appellant's points VI and VII that they raise essentially the same question, having to do with the statement of defendant's counsel

ring closing argument and having to do with the court's action thereafter.

a. This matter must be viewed in several lights, the first of which is due to the special finding by the jury. The finding was that the automobile was being operated within the scope of the garage business, and such finding of course renders moot the entire discussion contained in points VI and VII of appellant's brief. The matters of coverage under other policies could have absolutely no bearing on the fact as found by the jury in response to the specific interrogatory (Tr. 15).

b. Secondly it should be pointed out in examining points VI and VII that no action was taken by opposing counsel other than is shown on page 26 of the transcript testimony. At that time counsel for appellant said "I don't think there is any evidence in this case about any policy having lapsed" (Tr. 26).

This is the sole action taken by appellant's counsel during the course of the trial in relation to this matter. Following this statement by counsel which hardly rises to the dignity of an objection, the court stated and correctly so that there was some evidence in the case to the effect that Mr. Brock had insurance of his own" (Tr. 26). Inferences could be drawn from this fact.

No objection was taken by appellant's counsel to the court's statement. No request was made by appellant's counsel for any further statement by the court at that time, nor were any requested instructions submitted by appellant's counsel directed to this issue.

Thomson vs. Boles, 123 F. 2d 487, 496; cert. denied 315 U. S. 804, 62 S. Ct. 632, 86 L. Ed. 1204.

It becomes apparent that there then is no issue whatsoever in regard to the statement made by the appellee's counsel. Raising it on the Motion for New Trial and raising it on this appeal manifests that these points are the products of hind-sight intended to correct a result that was not favorable to the appellant.

c. Thirdly, it should be noted that even without the first two points, nothing prejudicial occurred as a result of appellee's counsel's statement. It was an admitted fact in court that there was another policy of insurance covering A. L. Brock and that this policy written by the Girard Insurance Company had also been denied application to Brock for this accident.

Appellant claims that the error herein was in allowing appellee's counsel to argue matters not in issue, i.e. the alleged lapse of insurance, alleged knowledge of Brock that appellee's policy did not cover him, alleged briefing by Brock's attorney before interview by appellee's agent that appellee's policy did not cover him, and implication that Brock was trying to create insurance coverage on the part of appellee where none existed (App. Br. 27). The so-called objection that appellant's counsel made didn't go to these matters saving and excepting an indication by Mr. Gardner that he didn't think there was any evidence in the case about the policy having lapsed; no objection was made as to these other grounds now claimed.

Counsel for the appellee was entitled, as the court indicated, to argue to the jury inferences which might be arrived at from the evidence introduced at the time of trial, the matters of which appellant now claims were prejudicial were certainly bases for inferences. No prejudice having resulted to the appellant, no error can or could now be claimed.

CONCLUSION

Appellee submits that appellant had a fair trial and fair opportunity to present his case. The matter is best summed up in the words of the trial court as follows:

"So, I can understand plaintiff is aggrieved, but on the other hand all that the Court can say is that it is going to be unjust, any verdict is going to be unjust until the plaintiff prevails, and the Court could not in its conscience make that determination." (Tr. 114)

Respectfully submitted,

VERGEER & SAMUELS

DUANE VERGEER & CHARLES S. CROOKHAM



United States
COURT OF APPEALS
for the Ninth Circuit

H. R. OSLUND,

Appellant,

vs.

STATE FARM MUTUAL AUTOMOBILE INSUR-
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Appellee.

APPELLANT'S REPLY BRIEF

*Appeal from Final Judgment of the United States
District Court for the District of Oregon*

HON. WILLIAM G. EAST, Judge.

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APPELLANT'S REPLY BRIEF

*Appeal from Final Judgment of the United States
District Court for the District of Oregon*

HON. WILLIAM G. EAST, Judge.

REPLY TO POINT NO. I

There is no substantial evidence to support the verdict.

Appellee claims that since the appellee's adjuster, Ed Engel, testified that he did not deny coverage, there was evidence that on issue (1), was there a denial of coverage, appellee did not deny coverage.

Assuming that the adjuster's testimony is true, nevertheless the appellee's own records, Plaintiff's Ex-

hibits 14 and 12, conclusively show that the claims committee of appellee denied coverage to A. L. Brock.

We submit that evidence cannot support the verdict on this issue.

Appellee claims that evidence supports the verdict on issue (2), was Brock operating the automobile at the time of the accident in the course of garage work. The evidence on this point is conclusive that at the time of the accident Brock was returning from getting eggs for his personal use. Appellee claims that evidence supports its contention that Brock was testing the car. Appellee admits that Exhibit 7 was offered for impeachment purposes and is not substantive evidence. However, appellee claims because at the trial Brock testified he tested the automobile in the morning and completed the work on the car in the morning (Tr. 31); and previously, on May 27, 1953, he had made a statement that he did not test the automobile (Tr. 35), grave doubts were cast as to whether he was road testing the automobile at the time of the accident.

The appellee apparently contends that because they managed to create grave doubts as to when the automobile was road tested, that grave doubts are sufficient evidence upon which to base a verdict. We submit such is not the law.

REPLY TO POINT NO. II

The court erred in admitting defendant's Exhibit 7.

Appellant and appellee agree that Exhibit 7 is not substantive evidence. The problem then is, was its ad-

mission proper for impeachment purposes. The exhibit itself does not impeach Lafky, since his unimpeached testimony was, Brock did not tell him that at the time of the accident he, Brock, was testing the car. Lafky testified that testing the car, was his impression, not what Brock told him. Nothing on Exhibit 7 indicates that Brock made such a statement to Lafky. The court in allowing the exhibit in effect permitted the jury to receive inadmissible evidence even for impeachment purposes, and declined to instruct the jury at the time of its reception that it was not substantive evidence. In fact, defense counsel claimed that it was evidence of what Brock allegedly told Lafky, and yet there was no evidence so identifying it. Appellee's position now on this point is contrary to the position asserted by it at trial. Counsel now admits it is not substantive evidence.

REPLY TO POINT NO. III

The court erred in submitting the question of garage exclusion to the jury.

Appellant submits that this point has been adequately covered in the appellant's brief and appellee's answering brief.

REPLY TO POINT NO. IV

The court erred in giving appellee's instruction.

We submit this point has been adequately covered in appellant's brief and appellee's answering brief.

REPLY TO POINT NO. V

The court erred in failing to give appellant's instruction 1.

We submit that the exclusion clause arising out of the operation of a garage is not free from ambiguity.

In *Barry vs. Sill*, 253 N.W. 14, the Supreme Court of Minnesota, in construing the exclusion clause, said:

"There is a claim, not very seriously urged, that the words 'agents or employees' of a garage, used in the limitation provision of the policy, should exclude such agents and employees during the period of employment even when the accident occurred outside of their hours of service and when they were on personal trips for their own purposes and outside of their scope of employment. Under the well-known rule as to the construction of such insurance policies with reasonable strictness against the insurer, we do not so construe the policy."

In this case, at the time of the accident Brock was either getting eggs, testing the car, or getting eggs and testing the car. We submit that with an accident occurring under these facts, it is ambiguous to say that it arose out of the operation of a garage. Consequently, the court erred in failing to give appellant's requested instruction.

REPLY TO POINTS NO. VI AND VII

Appellee's counsel's argument of matters outside the record prejudiced appellant and prevented appellant from having a fair trial (Tr. 26).

(a) Appellee claims that counsel's arguing as to facts and matters not within the issues and upon which no evidence was presented is moot because the jury found for appellee.

We submit if the case were not on appeal that the argument would have merit. But since the case is on appeal, the remarks of appellee's counsel in closing argument is either grounds for a new trial or it is not. Certainly every person in the courts of the United States is entitled to a fair trial, and if the improper remarks of counsel deprive the other party of a fair trial, the appellate court will not hesitate to set aside the judgment and order a new trial. We submit the question has not yet become moot.

(b) Appellee claims appellant did not properly raise the question of appellee's counsel's improper argument. Counsel for appellant did object, and the court did consider the objection and allowed the argument. Counsel also raised the question on motion for a new trial to no avail. Appellant submits either the remarks were prejudicial or they weren't. Both appellee and the trial court know that argument was outside the record or it wasn't. Appellant submits that the argument was improper and prejudicial and that he is entitled to a new trial.

Appellee quotes *Thomson vs. Boles*, 123 F. 2d 487, cert. denied 315 U.S. 804, 62 S. Ct. 632, 86 L. Ed. 1204. The case is not in point. The matters argued were in evidence although not in issue. Furthermore, the arguments were allegedly appeals to sympathy provoked in part by the other party.

We submit the principle cited in *New York C. R. Co. vs. Johnson*, 279 U.S. 310, 73 L. Ed. 706, 49 S. Ct. 300, and the summary of Judge Learned Hand in *Brown vs. Walter*, 62 F. 2d 798, are applicable to the facts in this case.

(c) Appellee claims that because Brock had a policy on his own car with a garage exclusion and appellant had to sue on it, that it was proper for appellee's counsel to argue:

"Mr. Brock was keenly aware of the fact that he was a garage operator and that he had no longer any garage liability coverage. The record shows that his policy had lapsed and he knew about it and he also knew that a policy such as this would not be applicable to him. Undoubtedly Mr. Brink had informed him thoroughly on the subject but that is outside of the record. Now there was a discussion between Mr. Engel and Mr. Brink . . . (Objection) (Tr. 26)."

We submit the argument is not a proper inference drawn from the fact that Brock's insurance company denied coverage, but is a recital of facts appellee claims were proven which were not, and were not issues in the case.

The fact that the trial judge ruled they were proper inferences did not make them so. To argue as proven by record facts which are not proven and which, if true, impute dishonesty, can have but one effect—prejudice.

CONCLUSION

Appellant concludes that the admissible evidence does not sustain the verdict. That the improper remarks of appellee's counsel and the failure of the trial court to strike them or attempt to offset them necessitates a new trial.

Respectfully submitted,

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